

NATIONAL MUSEUMS SCOTLAND
ANNUAL REPORT AND ACCOUNTS

CHARITY NUMBER : SC 011130

FOR THE YEAR ENDED 31 MARCH 2007

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ANNUAL REPORT OF THE BOARD OF TRUSTEES

REPORT OF THE BOARD OF TRUSTEES

1. A Brief Organisational History

The organisation was created on 1 October 1985 by the amalgamation of the National Museum of Antiquities of Scotland and the Royal Scottish Museum. Our activities are now defined primarily by the terms of the National Heritage (Scotland) Act 1985. In October 2006 the organisation adopted a new operational name, National Museums Scotland, and changed the names of some of its museums. This was part of a wider programme of strategic change and improved communications. The new names are used throughout this report. Our statutory name, 'The Board of Trustees of the National Museums of Scotland', is retained for use on legal and contractual documents.

National Museums Scotland operates five museums: the National Museum of Scotland on Chambers Street in Edinburgh, the National War Museum in Edinburgh Castle, the National Museum of Flight in East Lothian, the National Museum of Rural Life near East Kilbride, and the National Museum of Costume near Dumfries. We are currently developing the National Museums Collection Centre in Granton, north Edinburgh, as the main location for our stored collections and conservation facilities.

Our principal place of business is Chambers Street, Edinburgh EH1 1JF.

National Museums Scotland has been granted charitable status: the charity number is SC 011130.

2. The Board of Trustees

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

- Sir Angus Grossart, CBE, LLD, DLitt, FRSE, DL (Chairman) – appointed 1 February 2006
- James A.G. Fiddes OBE, DUniv, MA, FRICS - reappointed 1 April 2005
- Lesley Hart MBE MA MSc - appointed 1 October 2003
- Michael Kirwan FCA - appointed 1 January 2005
- Professor Michael Lynch PhD, FRSE, FSA (Scot) - reappointed 1 October 2006
- Christina Macaulay MA – second term completed 31 March 2007
- Sir Neil McIntosh CBE, JP, DL – second term extended by 18 months from 1 April 2007
- Professor Malcolm McLeod, CBE, MA, BLitt(Oxon), FRSE - appointed 1 April 2005
- Neena Mahal MA DCG - reappointed 1 April 2004
- Dr Stuart Monro CGeol, FGS, ILTM, FRSSA - appointed 1 April 2005
- Ian Ritchie CBE, FREng, FRSE, FBCS - reappointed 1 October 2006
- Ian Smith FFA, FCIA - second term completed 31 March 2007
- Sir John Ward CBE, CA, FRSE, FRSA, FIET - appointed 1 January 2005
- Iain Watt BSc, FCIBS – appointed 1 February 2007

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

The National Museums maintain 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 our website www.nms.ac.uk and for inspection at the National Museum on application to the Head of Corporate Policy and Performance.

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

3. Related Organisations

National Museums Scotland wholly owns a limited company, NMS Enterprises Limited, which operates commercial services (hospitality, retail, publishing and image management) at our sites. Profits are covenanted to National Museums Scotland through Gift Aid. The NMS Charitable Trust is an independent body whose purpose is to aid any objects deemed legally charitable, giving preference to those which are directly or indirectly of benefit or assistance to the Board of Trustees of National Museums Scotland. The Trust manages funds raised through the Museums' fundraising activity, or received as donations and bequests. Most of the funds held by the charity are restricted and may only be applied for the purposes for which they were established. There is also a General Fund from which the Trustees may make discretionary grants.

National Museums Scotland works closely with the Scottish Executive as its principal funder, and is a member of a Shared Services Forum with the other five National Collecting Institutions: National Galleries of Scotland, National Library of Scotland, Royal Botanic Gardens Edinburgh, Royal Commission of the Ancient and Historical Monuments of Scotland and the National Archives of Scotland. The Forum collaborates to improve public services and to achieve efficiencies.

We work in partnership with a number of private and public sector organisations to support the delivery of our objectives. Formal partnerships include the National Trust for Scotland for the operation of the National Museum of Rural Life and the Piping Centre in Glasgow which the organisation has supported with a major loan and curatorial advice. We are developing formal partnerships with selected regional museum services across Scotland to give strategic focus to NMS activity in supporting the sector. The first partnership was signed with East Ayrshire Museum Services towards the end of the year, and the second with the Western Isles was agreed in July 2007. A third will be concluded in 07/08. These partnerships will focus on sharing knowledge, skills development and loans. NMS has also developed an extremely popular programme of workshops, open to the sector generally, in knowledge exchange. We also joined forces with Sport Scotland on the development of the online Scottish Sports Hall of Fame and the *Sporting Scotland* gallery in the National Museum, and with the National Galleries of Scotland and National Library of Scotland to create the touring exhibition *Fonn 's Duthchas: Land and Legacy*, which opened in Inverness in January as part of *Highland 2007*.

The organisation's banker is The Royal Bank of Scotland, 6-8 George Street, Edinburgh EH2 2SA. The external auditor is 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 National Museums Scotland

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

- a) care for, preserve and add to the objects in our 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
- e) provide education, instruction and advice and carry out research

National Museums Scotland 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.

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

We achieve our objectives through a structured system of planning and performance management. This is based on the identification of strategic aims within the vision and mission, which cascade into objectives at directorate, departmental and personal level and SMART measures for these. National

Museums Scotland publishes a Strategic Plan, currently covering 2006-2012, which is distributed to all staff and key stakeholders and appears on the NMS website. In addition an annual Operating Plan defines the key objectives and actions for the current financial year. Performance is reported annually in updates to the Plan, in this Annual Report & Accounts, and the Annual Review. There is a Personal Performance Development and Review system for all staff.

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

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

The National Museums Scotland Board controls NMS Enterprises Ltd.

5. Organisational Structure and Staff

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

Dr Gordon Rintoul, Director
Jane Carmichael, Director of Collections
Andrew Patience, Director of Finance and Resources
Catherine Holden, Director of Marketing and Development
Mary Bryden, Director of Public Programmes
Fiona Bell, Director of Estates and Facilities Management - appointed 21 August 2006

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

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

Corporate information is shared with staff through publication of plans and minutes, formal staff notices, a regular newsletter, presentations, departmental meetings and a new programme of structured team briefings. This is supported by a network of Internal Communications Champions across the organisation. The management team regularly meet staff representatives from the three Trade Unions, under a new Partnership Agreement agreed in 2005.

The organisation has strong relationships with volunteers in a variety of capacities, including leading guided tours and assisting with curatorial and conservation activity. We benefited from the support of over 300 volunteers during the year.

6. Key Achievements in 2006/07

We have made progress towards all of our strategic aims during the year, the main developments and achievements being noted below. Further details are provided in Section 4 of the Strategic Plan 2006-2012, which is available on our website www.nms.ac.uk.

The major special exhibitions at the National Museum were particularly successful: *Monster Creepy Crawlies* drew in 50,000 family visitors, *Beyond the Palace Walls: Islamic Art from The State Hermitage Museum* attracted 18,000 visitors and won widespread critical acclaim for the quality of its material and interpretation, and *Pixar: 20 Years of Animation* opened in March 2007 and was an instant success. Two new permanent exhibitions at the National Museum have also proved popular: *Sporting Scotland*, which opened in June 2006, incorporating the Scottish Sports Hall of Fame, and the hands-on exhibition of science and technology, *Connect*, has built a strong family following.

Other notable special exhibitions during 2006-07 included *No Easy End in Sight: South East Asia 1945* and *Commando Country* at the National War Museum, *Green Design: Creativity with a Conscience*, *Reflections: A Decade of North Lands Glass* and *The Cutting Edge: Scotland's Contemporary Crafts* at the National Museum, and *A Century of Fashion in Films* at the National Museum of Costume. The National Museum also showed *Gifted: Made in Scotland by Hand*, *Great Apes* and *Sacred Words*, created a series of *Discovery Zones* for children, acted as a lead venue for the Edinburgh International Science Festival, and hosted a broadcast of BBC *Antiques Roadshow: The Next Generation*. The National Museum of Flight

received four new aircraft, generously donated by British Airways, including a Boeing 707 jet airliner, and the *Airshow* drew its biggest ever crowds.

During 2006 we completed a wide-ranging review of our communications, designed to improve understanding of the National Museums and engage a larger and broader audience. We launched our new brand in autumn 2006, and this will guide our future marketing materials, public services and organisational culture. We also took the opportunity to clarify the names of some of our museums.

We attracted over 1.4 million visits to our museums during the year, including the largest ever numbers to the National Museum - the fourth successive year of audience growth at this site. Over 4 million visits were also made to our website, which was re-launched in the autumn as part of an initiative to increase online access to our collections and services. All our museums continued to offer an active programme of events for schools, colleges and informal learners of all ages, engaging over 200,000 people.

Our new National Partnerships Strategy was delivered through a range of joint projects broadening access and increasing understanding of national and non-national museum collections in Scotland. We undertook loans, exhibitions, learning programmes, training and advice in 29 of Scotland's 32 local authorities, and established a strategic partnership with East Ayrshire Council. A total of 1,373 objects from the collections were loaned for display purposes in the UK and abroad, including an exhibition at the Metropolitan Museum in New York. Our international partnerships included the *Museum with No Frontiers*, a collaboration between museums across Europe and the Middle East to give digital access to important Islamic material, and the Dogrib Project with the Yellowknife Heritage Centre in the Canadian Northwest Territories, where we are working with the local Dene community.

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

7. Research Activities

During the year ended 31 March 2007, 102 research articles by NMS staff members were accepted for publication. In addition, the outcomes of research activities were communicated through a wide range of channels such as conferences, lectures and in exhibitions and public programmes.

8. Future Plans

Our £46.4m project to transform the Royal Museum took a major step forward in January 2007, when the Project was awarded record grants from the Heritage Lottery Fund (HLF) and the Scottish Executive. Total contributions of £17.8m from HLF and £16m from the Executive represent in both cases their largest commitment of funds to a cultural refurbishment project. With this strong support in place, together with good progress in our own fundraising for £12.4m from other sources, the Royal Museum Project will be our highest priority for the next 4 years. The project will double the number of objects on display, create 16 new exhibitions and learning zones, and improve visitor facilities and access, opening up a whole new floor at street level. It will also significantly improve our storage and conservation facilities at the National Museums Collection Centre, with the addition of two new buildings at the site in 2007 and 2008.

To enable the project to progress quickly and safely, we will close part of the Royal Museum building in April 2008. The Museum of Scotland building will remain open, as will the science and technology wing, including *Connect*. Our special exhibition *Picasso: Fired with Passion* will run from 6 July to 28 October 2007. This exhibition was conceived and created by National Museums staff, with loans from across the UK and Europe, and will be seen exclusively in Scotland. The touring exhibition *Fonn 's Duthchas* will open in Stornoway in September, having shown previously in Inverness, Glasgow and this summer at the National Museum. Two new permanent exhibitions are in development for the National Museum in 2008, focusing on modern Scotland and the treasures of our collections of natural history and world cultures.

We will continue to develop the National Museum of Flight, using our ten year plan to guide short- and long-term investment in the site as a major attraction in East Lothian. New transport around the site for visitors, more activities for families, and new aircraft are being installed for 2007. New exhibitions are in preparation for future years exploring the history of the historic airfield, milestones of flight, and a hands-on zone for families. The National Museum of Costume will show *Fabric of Nation* throughout the 2007 visitor season: an exhibition exploring the development of tartan over 250 years.

9. Scottish Executive Priorities

Scottish Executive objectives are contained in the Spending Review 2004, which covers the period 2004/05 to 2007/08. The principal objectives which relate to the National Museums are:

- Objective 1 - To ensure that everyone has the opportunity to participate in a variety of cultural activities.
- Objective 2 – To support social inclusion by ensuring the widest possible involvement in cultural, social and sporting opportunities. *Target – Increase numbers taking part in cultural activities funded by the Scottish Executive by 3% by the end of March 2008, maintaining the balance of participation across the population.*
- Objective 6 – To promote excellence in sport and culture. *Target – Increase the number of cultural successes by 3% by end March 2008.*

Objective 1: Our largest site, the National Museum, continued to achieve a growth in visits, beating all previous years once again. This reflects effective marketing communications and the dynamic public programme, including popular special exhibitions like *Monster Creepy-Crawlies* and *Pixar*. Overall visit numbers in 2006/07 were 10% lower than our record year 2005/06, when we achieved our highest ever attendance. There were fewer visits to the National War Museum, caused by changes to the visitor offer and routing within Edinburgh Castle. Attendance at the National Museum of Flight also fell below the peak of the previous year's opening of the *Concorde Experience*, but is still 130% up on the pre-Concorde figure

Objective 2: Overall participation by key target groups, through visits or learning activities, increased in 2006/07 compared to 2005/06. These groups include young people up to 16 years of age, 16-24 year-olds, people over 65 years, people with a disability, people from minority ethnic groups, people from rural areas, and people living in areas of deprivation.

Objective 3: Our successful programme of special exhibitions not only attracted a wide range of audiences, but also accolades for their quality. *Beyond the Palace Walls: Islamic Art from the State Hermitage Museum* received outstanding reviews in the media, and *The Concorde Experience* was shortlisted for the prestigious Gulbenkian Prize. The virtual museum of Islamic collections known as the *Museum Without Frontiers* demonstrated both innovation and a world-class outcome through international collaboration. *Fonn 's Duthchas* is touring Scotland, a successful outcome of joint working between National Museums Scotland, the National Galleries of Scotland and the National Library of Scotland. The record funding commitment by the Heritage Lottery Fund for the Royal Museum Project, the largest award to a cultural project in Scotland, demonstrated strong support for our vision and ability to deliver at a UK national level.

10. Financial Review

The combined financial results and appropriations are shown in full in the Consolidated Income and Expenditure Account on page 17. The accounts consolidate the results of National Museums Scotland's wholly-owned trading subsidiary NMS Enterprises Ltd (NMSE). An Income and Expenditure Account for NMS alone is included on page 23.

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

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

	2007 £m	2006 £m
Income		
Grant in aid received, net of capital transfers to reserves	19.0	18.2
Other income	3.6	3.8
Release from capital, donated assets and revaluation reserves	5.1	5.0
Total Income	27.7	27.0
Expenditure		
Staff Costs	13.2	12.7
Other Operating Charges	9.3	9.0
Depreciation	5.1	5.0
Total Expenditure	27.6	26.7
Operational Results Surplus	0.1	0.3

The surplus for 2006/7 has been transferred to the Board Reserve Fund.

**Reserves available for use by NMS
Board Reserve Fund**

	2007 £m	2006 £m
Board Reserve Fund at 31 March	1.7	1.8
Commitments made :		
Revenue projects in progress	(0.2)	(0.2)
Capital projects in progress	(0.3)	(0.4)
Royal Museum Project – HLF Stage 2	(0.3)	(0.5)
Total commitments	(0.8)	(1.1)
Uncommitted reserves	0.9	0.7

Principal funding - grant-in-aid from the Scottish Executive - increased as agreed with the Scottish Executive to fund the implementation 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 decreased slightly due to less successful special exhibitions in the current year. Staff and operating costs increased in line with inflation.

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

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

The Operational Results Surplus shown above differs from the Excess of Expenditure over Income shown in the Income & Expenditure Account. This is because revenue grant-in-aid is shown as income above, but excluded from the Income & Expenditure Accounts and instead, in line with requirements of the Government Financial Reporting Manual (FRoM), credited directly to the general fund in the year in which it is received.

11. Risks

National Museums Scotland undertook a major review and rationalisation of its risk register in the period. The Statement of Internal Control on pages 13 – 14 provides more detail on risk management.

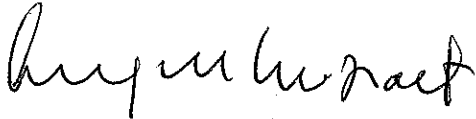
12. Status of Land and Buildings and Significant Changes to Fixed Assets

National Museums Scotland holds title to the National Museum on Chambers Street, National Museums Collection Centre at Granton, the National Museum of Flight, Leith Custom House and the former Dental Hospital in Chambers Street. Title to the National Museum of Costume and the property at Port Edgar is held by Scottish Ministers. Buildings at the National Museum of Rural Life are owned by the National Trust for Scotland; and the premises of the National War Museum are in the care of Historic Scotland. National Museums Scotland owns the museum displays and other fittings and facilities. We have full operational use of these assets and are responsible for their upkeep and maintenance.

In the period, the group acquired tangible and intangible assets at a cost of £5.73m. The sum of £0.23m was spent on permanent galleries, £5.14m on buildings, £0.23m on equipment purchases and £0.13m on intangible assets. There were no additions to leasehold improvements, and £0.52m on collection additions

13. Prompt Payment Code

National Museums Scotland'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 2006/07 showed that on average we paid 97% of invoices within this period.



CHAIRMAN

DATE 17/9/2007

REMUNERATION REPORT

Remuneration Policy

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

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

The PARC consists of a number of Trustees. During the year these were Sir Neil McIntosh (Chairman), Christina Macaulay, and Lesley Hart. The Director, the Director of Finance and Resources and the Head of Human Resources also attend meetings. As part of its advisory and review role, the PARC considers the following:

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

Service Contracts

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

Unless otherwise stated below, the employees covered by this report hold appointments, which are open-ended until they reach the current normal retiring age of 65. Early termination, other than for misconduct, could result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Salaries

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

	2007	2006	Accrued annual pension payable 31 March 2007	Increase in accrued pension since 31 March 2006 (1)	CETV at 31/3/07	CETV at 31/3/06	Real increase in CETV funded by NMS
	Salary	Salary					
	£000	£000	£000	£000	£000	£000	£000
Director							
Gordon Rintoul	90-95	90-95	10-15	0-2.5	209	184	19
Director of Public Programmes							
Mary Bryden	45-50	60-65	25-30 (2) plus a lump sum 80-85	0-2.5	581	539	26
Director of Collections							
Jane Carmichael	65-70	65-70	30-35	0-2.5	617	581	19
Director of Estates and Facilities Management							
Fiona Bell (Appointed 21 August)	35-40		0-5	0-2.5	7	-	6
Director of Marketing and Development							
Catherine Holden	70-75	60-65	10-15 (2) plus a lump sum 30-35	0-2.5	154	140	12
Director of Finance & Resources							
Andrew Patience	65-70	65-70	5-10	0-2.5	121	103	14

Pension figures above are provided by the Department for Work & Pensions.

- 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 and Catherine Holden.

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

Benefits in kind

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

Pensions

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

The defined benefit schemes provide benefits on a 'final salary' basis at normal retirement age of 60. The newer scheme, "Premium" was introduced in 2002, while the older scheme, "Classic" remains open only to existing members as at 1 October 2002. Benefits in the Premium scheme accrue at the rate of 1/60th 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.

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

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

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

Cash Equivalent Transfer Values

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

Real Increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement), and uses common market valuation factors for the start and end of the period.

DIRECTOR.....



13/9/2007

ACCOUNTS

STATEMENT OF BOARD'S AND DIRECTOR'S RESPONSIBILITIES

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

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

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

The Principal Accountable Officer for the Scottish Administration has appointed the Director of the National Museums of Scotland as Accountable Officer for NMS. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding NMS's assets, are set out in the Accountable Officer's Memorandum issued by the Scottish Ministers.

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

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 Accountable Officer is personally responsible, in accordance with the responsibilities assigned to us.

The Accountable Officer works closely with the Scottish Executive and Ministers where relevant in developing overall financial strategies, and informs the Scottish Executive of issues relating to internal control, including reports of internal audit and of fraud, whether incurred or not.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Executive and other relevant bodies on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of NMS's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in NMS for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with guidance from the Scottish Ministers.

Capacity to Handle Risk

The Corporate Management Team led by the Director actively assess risk as part of their on-going corporate responsibility, and discuss material risk matters where identified at their fortnightly meetings. 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. Any guidance or training provided will adopt good practice wherever possible.

The Risk and Control Framework

The Corporate Management Team undertook a major review of its risk register in the period and identified 20 key risks through a process of probability and impact assessment. The top 5 key risks will be reported upon at each audit committee in detail as to current status with any significant changes in these risks reported to the Board. Control mechanisms to minimise or mitigate risks were identified and reviewed for effectiveness, and "ownership of the risks" was assigned to the relevant Director. Any training required as stated above is identified and taken forward as relevant. Risks are also identified at departmental level, and are evaluated for materiality, probability and impact. Any significant risks are reported to the relevant Corporate Director.

Review of Effectiveness

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. We have been advised on the implications of our review of the effectiveness of the system of internal control by the board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place

The Board of Trustees at each meeting receive an update on key operational matters from the Director. They also receive a report from the chairman of the Audit Committee on any significant issues with any matters affecting the top 5 risks on the risk register being brought to the Trustees attention.

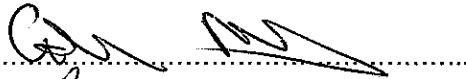
The Audit Committee receive an update at each four monthly meeting on key business issues, a report on progress on the top 5 risks on the risk register, and any significant issues affecting the other risks identified in the risk register. Regular reports are provided to each audit committee meeting by 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 the system of internal control together with recommendations for improvement. The external auditors also provide reports to the audit committee with comments on the internal control environment as appropriate.

The Corporate Management Team reviews the risk register formally once a year with any significant issues being reported on and discussed at each fortnightly meeting. Quarterly performance indicators are also reviewed at these meetings to ensure they are in line with targets prior to submission to the Scottish Executive. Any matters of significance affecting the business e.g. Human Resources (recruitment, attendance, training), project assurance (key projects meeting targets) , monthly management accounts (budget/actual review and revised forecasts), operational plan updates and forward reviews are reviewed and discussed with appropriate action taken forward.

The overall control environment has been assessed as moderate by the Head of Internal Audit due to changes required in the Department of Information and Communication Technology (ICT). NMS has reviewed the ICT Department structure in full, made appropriate changes which led to the appointment of a new management team together with other staff changes. These structural changes together with improvements to internal control procedures have been made with the intention to increase the internal control assessment to high.

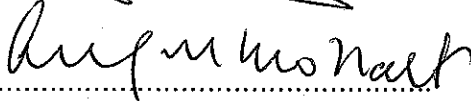
The Royal Museum Project which received Heritage Lottery and Scottish Executive approval in the year is of crucial importance going forward due to the size of staff resource and finance required. The project has its own Executive committee which includes Trustee representation. Any variations above a certain level on this project require formal Heritage Lottery and Trustee approval.

DIRECTOR



13/9/2007

CHAIRMAN



17/9/2007

INDEPENDENT AUDITORS' REPORT

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

I have audited the financial statements of the National Museums Scotland for the year ended 31 March 2007 under the National Heritage (Scotland) Act 1985. These comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Financial Activities, the NMS Income & Expenditure Account, the NMS Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or offices, in their individual capacities, or to third parties.

Respective responsibilities of the Board, Accountable Officer and Auditor

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

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

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Report of the Board of Trustees and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

Financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers, of the state of affairs of the body as at 31 March 2007 and of its incoming resources and application of resources, excess of expenditure over income, total recognised gains and losses, and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers.

Regularity

In my 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.

Auditor: Lorna Meahan



Address: Assistant Director, Audit Scotland, 1-5 Osborne Terrace, Edinburgh, EH12 5HG

Date:

19 September 2007

NATIONAL MUSEUMS SCOTLAND

Consolidated Income and Expenditure Account for the Year Ended 31 March 2007

		Continuing Activities	
		2007 £000	2006 £000 Restated
All operations are continuing			
	<i>Notes</i>		
Income			
Income received from trading activities		2,032	2,261
Entrance charges		629	968
Miscellaneous grants		312	140
Other income	4	477	388
Proceeds from sale of land		-	250
		3,450	4,007
Expenditure			
Staff costs	5	13,189	12,741
Other operating charges	6	9,309	9,044
Depreciation and permanent diminution in value	1(c), 7, 9	5,103	4,964
		27,601	26,749
Excess of expenditure over income before interest		(24,151)	(22,742)
Notional Cost of capital	21	(4,484)	(4,789)
Interest receivable		163	98
Excess of expenditure over income after interest		(28,472)	(27,433)
Taxation	1(i)	-	-
Excess of expenditure over income after taxation		(28,472)	(27,433)
Add back notional cost of capital	21	4,484	4,789
Excess of expenditure over income for the year before reserve movements		(23,988)	(22,644)
Board Reserve release	16	19	19
Capital Reserve release	16	1,843	1,875
Capital Donations release	16	1,312	1,261
Proceeds from sale of land transfer to Capital Reserve		-	(250)
Revaluation Reserve release	16	1,934	1,838
Excess of expenditure over income for the year		(18,880)	(17,901)
Transfer to General Fund	16	(18,905)	(17,869)
NMS Enterprises Ltd profit/(loss) net of gift aid	19	25	(32)
		(18,880)	(17,901)

The notes on Pages 25 to 38 form part of these accounts.

NATIONAL MUSEUMS SCOTLAND

Consolidated Statement of Total Recognised Gains and Losses for the Year Ended 31 March 2007

		2007	2006
		£000	£000
			Restated
	<i>Notes</i>		
Excess of expenditure over income		(18,880)	(17,901)
Unrealised gain on revaluation of fixed assets		3,081	15,247
Donated asset receipts	16	1,063	888
Total Recognised gains and losses during the year		(14,736)	(1,766)

The notes on Pages 25 to 38 form part of these accounts.

NATIONAL MUSEUMS SCOTLAND

Consolidated Balance Sheet for the Year Ended 31 March 2007

		2007 £000	2006 £000 Restated
	<i>Notes</i>		
Fixed Assets			
Tangible assets	7	160,914	157,337
Collections	8	2,990	2,471
Intangible assets	9	137	61
Investments	10	1	1
		164,042	159,870
Current Assets			
Stocks	11	412	413
Debtors	12	710	1,311
Cash at bank and in hand	13	3,913	3,836
		5,035	5,560
Current Liabilities			
Creditors: amounts falling due within one year	14	(2,033)	(2,297)
Net current assets		3,002	3,263
Total assets less current liabilities		167,044	163,133
Creditors: Amounts falling due after more than one year	14	-	-
Provision for liabilities and charges	15	(457)	(356)
Total net assets		166,587	162,777
Financed by:			
Capital and reserves			
Unrestricted funds:			
Capital reserve	16	62,720	60,519
General fund	16	320	320
Board reserve fund	16	2,823	2,707
NMS Enterprises Ltd	19	(225)	(250)
		65,638	63,296
Restricted funds:			
Donated assets reserve	16	15,191	14,921
Revaluation reserve	16	85,469	84,323
Purchase fund	16	289	237
		100,949	99,481
		166,587	162,777


Director

13/9/2007
Date

The notes on Pages 25 to 38 form part of these accounts.

NATIONAL MUSEUMS SCOTLAND

Consolidated Cash Flow Statement for the Year Ended 31 March 2007

		2007 £000	2006 £000 Restated
	<i>Notes</i>		
Net cash inflow/(outflow) from operating activities	17	1,328	756
Returns on investments and servicing of finance			
Interest Received		163	98
Taxation:			
Corporation Tax	1(i)	-	-
Capital expenditure and financial investment:			
Payments from Purchase Fund	16	(539)	(384)
Payments from NFA Fund	24	(155)	(170)
Payments to acquire tangible and intangible fixed assets	7,9	(5,643)	(5,418)
Receipts from sale of tangible and intangible fixed assets		-	250
Total capital expenditure and financial investment		<u>(6,337)</u>	<u>(5,722)</u>
Cash outflow before financing		<u>(4,846)</u>	<u>(4,868)</u>
Financing:			
Government grants	2	3,347	4,363
Capital grants received	16	785	1,267
NFA Fund received	24	200	200
Purchase Fund	16	591	518
		<u>4,923</u>	<u>6,348</u>
Increase in cash in the period	17	<u>77</u>	<u>1,480</u>

The notes on Pages 25 to 38 form part of these accounts.

NATIONAL MUSEUMS SCOTLAND

Consolidated Statement of Financial Activities for the Year Ended 31 March 2007

	2007 Unrestricted Funds £000	2007 Restricted Funds £000	2007 Total £000	2006 Total £000
Incoming resources				
Income resources from generated funds				
Voluntary income				
Grant-in-aid	22,387	510	22,897	23,538
Other grants	2,102	81	2,183	1,275
Donations	73	-	73	47
Membership income	140	-	140	51
Activities for generating funds				
Activities in the furtherance of the charity's objectives	1,205	-	1,205	1,397
Activities for generating funds	2,032	-	2,032	2,261
Investment income				
Gift aid	408	-	408	467
Interest income	163	-	163	98
Other income				
Proceeds on disposal of fixed asset	-	-	-	250
Total incoming resources	28,510	591	29,101	29,384
Resources expended				
Cost of generating funds				
Development	407	-	407	663
NMS Enterprises Ltd – Cost of goods sold	877	-	877	978
NMS Enterprises Ltd – Admin costs	736	-	736	860
NMS Enterprises Ltd – Gift aid	408	-	408	467
Charitable expenditure				
Curatorial	4,260	-	4,260	3,798
Conservation and Collections	1,876	-	1,876	1,840
Exhibitions	6,513	-	6,513	5,551
Security and Support Services	1,926	-	1,926	1,920
Marketing	1,138	-	1,138	804
Management and Administration	5,251	-	5,251	5,654
Estates and Buildings	4,708	-	4,708	4,435
Fieldwork and Acquisitions	-	539	539	383
Governance costs				
Staff costs	176	-	176	170
Trustees expenditure	19	-	19	28
Internal audit	24	-	24	16
External audit	33	-	33	28
Total resources expended	28,352	539	28,891	27,595
Notional cost of capital	4,484	-	4,484	4,789
Total resources expended including notional costs	32,836	539	33,375	32,384
Net outgoing resources before revaluation, collections capitalisation and reversal of notional costs				
Revaluation of fixed assets	(4,326)	52	(4,274)	(3,000)
Revaluation realised on disposal of land	-	3,081	3,081	15,246
Capitalisation of collections purchases	519	-	519	327
Release from revaluation reserve	1,934	(1,934)	-	-
Reversal of notional cost of capital	4,484	-	4,484	4,789
Net movement in funds	2,611	1,199	3,810	17,288
Total funds brought forward	78,217	84,560	162,777	145,489
Total funds carried forward	80,828	85,759	166,587	162,777

NATIONAL MUSEUMS SCOTLAND

Consolidated Statement of Financial Activities (Continued) for the Year Ended 31 March 2007

	2007 Unrestricted Funds £000	2007 Restricted Funds £000	2007 Total £000	2006 Total £000
Total fund balances comprise:				
Fixed assets	78,573	85,469	164,042	159,870
Net current assets	2,713	289	3,002	3,263
Creditors due after more than one year	-	-	-	-
Provisions for liabilities and charges	(457)	-	(457)	(356)
	80,829	85,758	166,587	162,777

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

The notes on Pages 25 to 38 form part of these accounts.

NATIONAL MUSEUMS SCOTLAND

NMS Income and Expenditure Account for the Year Ended 31 March 2007

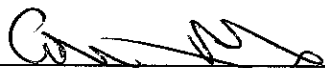
		Continuing Activities	
		2007 £000	2006 £000 Restated
All operations are continuing			
	<i>Notes</i>		
Income			
Entrance charges		629	968
Gift aid from subsidiary		408	467
Miscellaneous grants		313	139
Other income	4	477	388
Proceeds from sale of land		-	250
		1,827	2,212
Expenditure			
Staff costs	5	12,622	12,191
Other operating charges	6	8,279	7,767
Depreciation and permanent diminution in value	1(c), 7, 9	5,079	4,943
		25,980	24,901
Excess of expenditure over income before interest		(24,153)	(22,689)
Notional Cost of capital	21	(4,484)	(4,789)
Interest receivable		141	76
Excess of expenditure over income after interest		(28,496)	(27,402)
Taxation	1(i)	-	-
Excess of expenditure over income after taxation		(28,496)	(27,402)
Add back notional cost of capital	21	4,484	4,789
Excess of expenditure over income for the year before reserve movements		(24,012)	(22,613)
Board Reserve release	16	19	19
Capital Reserve release	16	1,842	1,876
Capital Donations release	16	1,312	1,261
Proceeds from sale of land transfer to Capital Reserve		-	(250)
Revaluation Reserve release	16	1,934	1,838
Excess of expenditure over income for the year transferred to General Fund	1(y), 16	(18,905)	(17,869)

The notes on Pages 25 to 38 form part of these accounts.

NATIONAL MUSEUMS SCOTLAND

NMS Balance Sheet as at 31 March 2007

		2007 £000	2006 £000 Restated
	<i>Notes</i>		
Fixed Assets			
Tangible Assets	7	160,783	157,279
Collections	8	2,990	2,471
Intangible Assets	9	137	61
Investment in Subsidiary	10	500	500
		<u>164,410</u>	<u>160,311</u>
Current Assets			
Debtors receivable within 12 months	12	1,105	1,807
Cash at Bank and in Hand	13	3,357	3,305
		<u>4,462</u>	<u>5,112</u>
Current Liabilities			
Creditors: Amounts falling due within one year	14	(1,603)	(2,040)
Net current assets		<u>2,859</u>	<u>3,072</u>
Total assets less current liabilities		<u>167,269</u>	<u>163,383</u>
Creditors: Amounts falling due after more than one year	14	-	-
Provision for liabilities and charges	15	(457)	(356)
Total net assets		<u>166,812</u>	<u>163,027</u>
Financed by:			
Capital and Reserves			
Unrestricted funds:			
Capital Reserve	16	62,720	60,519
General Fund	16	320	320
Board Reserve Fund	16	2,823	2,707
		<u>65,863</u>	<u>63,546</u>
Restricted Funds:			
Donated Assets Reserve	16	15,191	14,921
Revaluation Reserve	16	85,469	84,323
Purchase Fund	16	289	237
		<u>100,949</u>	<u>99,481</u>
		<u>166,812</u>	<u>163,027</u>



Director

13/9/2007

Date

The notes on Pages 25 to 38 form part of these accounts.

NATIONAL MUSEUMS SCOTLAND

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

1. Accounting Policies

a) *Basis of Accounting*

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

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

b) *Basis of Consolidation*

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

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

c) *Tangible Fixed Assets and Depreciation*

Land and buildings are valued every five years by a professional valuer and revalued annually using appropriate indices. The method of valuation for specialised properties, that is land and buildings for which there is effectively no market, is depreciated replacement cost. Other properties are valued at open market value for existing use. Equipment is valued at current replacement cost less depreciation.

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

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

From 1 April 2006 items costing less than £5,000 are written off in the year of purchase. Previously this limit was £2,000.

Where assets are sold or written off they are shown as disposals in the accounts. Annual impairment reviews are undertaken to ensure that the service of potential assets remains undiminished.

Further information about capitalisation and valuation is included at Note 7.

d) *Intangible Assets*

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

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

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

e) Government Grants

Revenue grant-in-aid is credited to the general fund in the year in which it is received. Grant-in-aid 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. The utilised element has been applied to the acquisition of fixed assets.

h) Revaluation Reserve

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.

i) Taxation

NMS has been granted charitable status by the Inland Revenue.

In respect of 2006/07 NMS Enterprises Ltd will pay £408k 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 21.

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

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

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

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*

Finance leases are capitalised in the Balance Sheet along with the corresponding liability for future payments. Operating leases are charged directly to the Income and Expenditure Account as incurred.

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 or objects gifted are not included in the balance sheet. Objects purchased since 1 April 2001 are included in the balance sheet at cost. Depreciation is not charged.

s) *Receipts*

Operating income is credited to the Income and Expenditure Account on an accruals basis. Amounts applied to the acquisition of fixed assets are credited to an appropriate reserve, as described in note 1(e) and 1(k) 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 5.

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 SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007**

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. Staff and operating costs incurred in relation to governance are shown separately. The other categories of expenditure are deemed to be activities in the furtherance of the NMS's objectives. Indirect costs between expenditure categories are allocated on the basis of staff numbers in each category. (see Note 5).

Costs of generating funds are defined as the salaries, operating costs and attributable overheads of the Development department and of NMS Enterprises Ltd. Depreciation has been allocated to activities in proportion to the staff numbers involved. Administrative costs are defined as staff and operational costs of the Directorate and the Finance and Resources departments. The format of the Statement of Financial Activities has changes from the previous year in order to comply with the Charities SORP 2005.

x) Liabilities

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

y) Government Funding

Government funding is accounted for in accordance with guidance contained in the Financial Reporting Manual (FReM). Government funding for revenue purposes is regarded as contributions from controlling parties and is credited directly to the General Fund. Government funding for capital purposes is credited either to the Capital Reserve or to the Deferred Income Account depending on the nature of the funding. There is no indication that government funding is likely to be withdrawn therefore the accounts are prepared on a going concern basis.

z) Prior Year Adjustment

Revenue grant-in-aid is credited to the general fund in the year in which it is received, whereas previously grant-in-aid was credited to income in the year it was received. Prior year figures have been restated to reflect this change (as described in note 2).

**2. Government Grant-In-Aid
(See Notes 1(e) & 16)**

	GROUP AND NMS	
	2007	2006
	£000	£000
Grant-in-aid received:		
Running Costs	19,880	18,665
Major Capital	3,347	4,363
	23,227	23,028
Purchase Grant	510	510
Total received during year	23,737	23,538

Prior Year Adjustment

During the year the Government Financial Reporting Manual (FReM) introduced changes in the way government funding is presented. Grants and grants-in-aid for revenue purposes are now regarded as contributions from controlling parties and accounted for as financing by crediting them direct to the General Fund. Previously, such grants had been accounted for as income.

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007**

Government funding for capital purposes is credited to a capital reserve and released to the income and expenditure account over the useful life of the asset.

The table below shows the surplus/deficit for the year compared to what it would have been had these changes not been introduced.

	GROUP		NMS	
	2007	2006	2007	2006
	£000	£000	£000	£000
Deficit incorporating FReM changes	(18,880)	(17,901)	(18,905)	(17,869)
Surplus/(deficit) without FReM changes	160	292	135	324

3. Capital Grants & Donations

	GROUP AND NMS	
	2007	2006
	£000	£000
Capital grants & donations received:		
Purchase fund receipts	81	8
Donated assets reserve receipts	1,063	888
	1,144	896

4. Other Income

	GROUP AND NMS	
	2007	2006
	£000	£000
Provision of Services, by Department	67	74
Membership Scheme	142	52
Gift Aid from Membership	13	-
NMS Charitable Trust	19	16
Misc Sponsorship	69	61
Donations	40	32
Revenue Earning Activities	2	-
Grant Aided Activities	2	14
Other	123	139
	477	388

Entry to the National Museum in Chambers Street is free, made possible by additional grant-in-aid for the purpose provided by the Scottish Executive. Entry to the National War Museum is also free, within the entrance fee charged by Historic Scotland for entry to Edinburgh Castle. Entrance charges are retained at other museums.

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007**

5. Employees

Staff Costs during the Year:

	GROUP		NMS	
	2007	2006	2007	2006
	£000	£000	£000	£000
Salaries	10,460	10,046	9,955	9,561
Social Security Costs	763	740	725	699
Pension Costs	1,805	1,629	1,781	1,605
Early Retirement	161	326	161	326
Total	13,189	12,741	12,622	12,191

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

The defined benefit schemes provide benefits on a 'final salary' basis at normal retirement age of 60. The newer scheme, "Premium" was introduced in 2002, while the older scheme, "Classic" remains open only to existing members as at 1 October 2002. Benefits in the Premium scheme accrue at the rate of 1/60th 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.

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

For 2006-07, employers' contributions of £1,781k were payable to the PCSPS (2005-06 £1,605k) at one of four rates in the range of 17.1 to 25.5 per cent of pensionable pay, based on salary bands (the rates in 2006-07 were between 16.2% and 24.6%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retire, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £1k (2005-06 £- 1k) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

The NMS Enterprises Group Personal Pension Plan is a defined contribution scheme. NMS Enterprises contributes between 8% and 12.5% of pensionable salary, depending on age. For 2006-07, employers' contributions of £24k were payable (2005-06 £24k)

Defined contribution scheme pension contributions were not paid in respect of staff earning more than £50,000. Retirement benefits accrued under the defined benefit schemes to 450 staff during 2006/07 (2005/06 = 445 staff), while benefits accrued under defined contribution schemes to 6 staff during 2006/07 (2005/06 = 6 staff).

No remuneration was paid to members of the Board of Trustees during 2006/2007 (2005/06 - nil). During 2006/2007 NMS paid a total of £2,649 in reimbursement of travel expenses to 8 Trustees for attending meetings at the National Museums of Scotland, while in 2005/06, a total of £6,836 was reimbursed to 9 Trustees. No benefit in kind accrued to Trustees during the year.

The average full-time equivalent number of employees was:

	GROUP		NMS	
	2007	2006	2007	2006
Directorate	12	12	12	12
Finance and Resources	30	28	30	28
Estates and Facilities Management	96	94	96	94
Collections	111	109	111	109
Public Programmes (including Visitor Services)	149	147	149	147
Marketing and Development	14	12	14	12
NMS Enterprises Ltd	20	18	-	-
Total	432	420	412	402

6. Other Operating Charges

	GROUP		NMS	
	2007	2006	2007	2006
	£000	£000	£000	£000
Board Expenses	22	17	22	17
Expenses - Staff	272	250	264	240
Administration Expenses	613	747	549	636
Internal Audit	24	16	24	16
Other External Charges	2,125	2,360	1,211	1,293
Consultancy:				
- Directorate & Resources	262	215	239	193
- Estates	105	49	105	49
- Collections	48	48	48	48
- Public Programmes	289	317	289	317
- Marketing & Development	137	209	137	209
Advertising	195	145	195	145
Fuel and Utilities	1,194	1,004	1,194	1,004
Rents and Rates	236	313	247	270
Furniture and Furnishings	78	143	67	124
Repairs and Renewals	3,598	3,076	3,585	3,079
Operating Leases	78	107	78	107
Audit Fee	33	28	25	20
Total	9,309	9,044	8,279	7,767

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

7. Fixed Assets (See note 1(c))

GROUP

	Land & Buildings	Under Construction	Leasehold Improvements	Permanent Galleries	Equipment	Totals
Cost or valuation (£000)						
1 April 2006	157,900	4,094	2,239	25,171	2,136	191,540
Additions	160	4,979	-	234	233	5,606
Transfers	25	(183)	-	158	-	-
Disposals	-	-	-	-	(350)	(350)
Revaluations	<u>3,180</u>	-	<u>45</u>	<u>517</u>	<u>(40)</u>	<u>3,702</u>
31 March 2007	<u>161,265</u>	<u>8,890</u>	<u>2,284</u>	<u>26,080</u>	<u>1,979</u>	<u>200,498</u>
Depreciation						
1 April 2006	20,605	-	262	11,712	1,624	34,203
Charge for year	2,953	-	46	1,859	187	5,045
Disposals	-	-	-	-	(285)	(285)
Revaluations	<u>415</u>	-	<u>5</u>	<u>241</u>	<u>(40)</u>	<u>621</u>
31 March 2007	<u>23,973</u>	-	<u>313</u>	<u>13,812</u>	<u>1,486</u>	<u>39,584</u>
Net Book Value						
31 March 2007	<u>137,292</u>	<u>8,890</u>	<u>1,971</u>	<u>12,268</u>	<u>493</u>	<u>160,914</u>
1 April 2006	<u>137,295</u>	<u>4,094</u>	<u>1,977</u>	<u>13,459</u>	<u>512</u>	<u>157,337</u>

NMS

	Land & Buildings	Under Construction	Leasehold Improvements	Permanent Galleries	Equipment	Totals
Cost or valuation (£000)						
1 April 2006	157,900	4,094	2,239	25,171	1,941	191,345
Additions	160	4,979	-	234	137	5,510
Transfers	25	(183)	-	158	-	-
Disposals	-	-	-	-	(350)	(350)
Revaluations	<u>3,180</u>	-	<u>45</u>	<u>517</u>	<u>(40)</u>	<u>3,702</u>
31 March 2007	<u>161,265</u>	<u>8,890</u>	<u>2,284</u>	<u>26,080</u>	<u>1,688</u>	<u>200,207</u>
Depreciation						
1 April 2006	20,605	-	262	11,712	1,487	34,066
Charge for year	2,953	-	46	1,859	164	5,022
Disposals	-	-	-	-	(285)	(285)
Revaluations	<u>415</u>	-	<u>5</u>	<u>241</u>	<u>(40)</u>	<u>621</u>
31 March 2007	<u>23,973</u>	-	<u>313</u>	<u>13,812</u>	<u>1,326</u>	<u>39,424</u>
Net Book Value						
31 March 2007	<u>137,292</u>	<u>8,890</u>	<u>1,971</u>	<u>12,268</u>	<u>362</u>	<u>160,783</u>
1 April 2006	<u>137,295</u>	<u>4,094</u>	<u>1,977</u>	<u>13,459</u>	<u>454</u>	<u>157,279</u>

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007**

Fixed Assets (Continued)

To comply with the requirements of the Government Financial Reporting Manual NMS includes its fixed assets at their value to the business by reference to current costs for the year ended 31 March 2007. This replaced the previous requirement to include assets at historical cost. Accordingly, NMS instructed the Valuation Office, an executive agency of the Inland Revenue, to undertake a valuation as at 31 March 2004 of the estates and other assets in accordance with RICS Appraisal and Valuation manual. The more specialised buildings were valued at depreciated replacement cost while the remainder were valued at open market value. These valuations obtained as at 31 March 2004 have been revised at 31 March 2007 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:

	2007	2006
	£000	£000
NMS tangible assets depreciation	5,022	4,881
NMS intangible assets depreciation (Note 9)	43	56
NMS Permanent diminution in value – tangible assets	15	7
NMS Enterprises tangible assets depreciation	23	20
	5,103	4,964

8. Collections
(See Note 1[r])

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. NMS is required 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	
	2007	2006
	£000	£000
1 April	2,471	2,145
Additions	519	326
31 March	2,990	2,471

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

9. Intangible Assets

	GROUP AND NMS	
	2007 £000	2006 £000
1 April	241	214
Software Acquired During Year	133	22
Revaluation	(57)	5
31 March	317	241
Amortisation:		
1 April	180	120
Charge for the Year	43	56
Revaluation	(43)	4
31 March	180	180
Net Book Value:		
31 March	137	61

10. Investments

	GROUP		NMS	
	2007 £000	2006 £000	2007 £000	2006 £000
Opening & Closing Balance	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.

11. Stocks
(See Note 1[f])

	GROUP		NMS	
	2007 £000	2006 £000	2007 £000	2006 £000
Stocks Held for Resale	412	413	-	-

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

12. Debtors

	GROUP		NMS	
	2007 £000	2006 £000	2007 £000	2006 £000
Receivable Within 1Year:				
Prepayments and Sundry Debtor	326	496	265	465
Season Ticket Advances	11	13	11	13
Trade Debtors	363	286	114	84
Less:				
Provision for Amounts not recoverable	(37)	(37)	(3)	(3)
Subsidiary Company	-	-	671	695
VAT Recoverable	47	553	47	553
	710	1,311	1,105	1,807

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

Balances due from other bodies within the boundary set for the Whole of Government Accounts included in Debtors above	2007 £000	2006 £000
Central Government	68	-
Local Government	1	-
Public Corporations	1	-
	70	-

13. Cash at Bank and in Hand

	GROUP		NMS	
	2007 £000	2006 £000	2007 £000	2006 £000
Cash and commercial accounts	3,791	3,767	3,235	3,236
Funds held for third parties	104	58	104	58
Paymaster General Account	18	11	18	11
	3,913	3,836	3,357	3,305

14. Creditors

	GROUP		NMS	
	2007 £000	2006 £000	2007 £000	2006 £000
Amounts falling due within one year:				
Trade Creditors	218	1,095	-	957
Other Creditors	343	178	322	171
Accruals	1,412	954	1,221	842
Deferred Income	60	70	60	70
	2,033	2,297	1,603	2,040
Amounts Falling Due After More than One Year:				
Creditors > 1 Year	-	-	-	-

Balances due to other bodies within the boundary set for the Whole of Government Accounts included in Creditors above	2007 £000	2006 £000
Central Government	12	1
	12	1

15. Provision for liabilities and charges

Restructure & injury benefit costs	GROUP AND NMS	
	2007 £000	2006 £000
Opening Balance 1 April	356	170
Add: Restructure Provisions	200	220
Less: Paid During Year	(46)	(34)
Less: Written Back During Year	(53)	-
Closing Balance 31 March	457	356

Restructure & injury benefits payable within 12 months included in Provisions above at 31st March 2007 was £236k (31/03/06 £56k).

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007**

16. Reserves

GROUP AND NMS £000	General Fund	Board Reserve Fund See Note 1[g]	Capital Reserve See Note 1[e]	Donated Assets Reserve See Note 1[k]	Revaluation Reserve See Note 1[h]	Purchase Fund See Note1[r]	Total
Opening Balance 1 April 2006	320	2,707	60,519	14,921	84,323	237	163,027
Revaluation gains	-	-	-	-	3,080	-	3,080
Release (to)/from I&E	-	(19)	(1,842)	(1,312)	(1,934)	-	(5,107)
Utilised in year	-	-	(66)	-	-	(539)	(605)
Government funding & donation (note 2)	19,880	-	3,347	-	-	510	23,737
Capitalisation of Collection Purchases	-	-	-	519	-	-	519
Other donations & transfers	-	-	(78)	1,063	-	81	1,066
Transfers	(975)	135	840	-	-	-	-
Deficit for year	(18,905)	-	-	-	-	-	(18,905)
Closing Balance 31 March 2007	320	2,823	62,720	15,191	85,469	289	166,812

of which:

Board & Capital Reserve

Utilised	1,093	62,170
Unutilised	1,730	550
	<u>2,823</u>	<u>62,720</u>

Revaluation Reserve

All Assets (excl Donated Assets)	66,469
Donated Assets	19,000
	<u>85,469</u>

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

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

	GROUP	
	2007 £000	2006 £000
Net outgoing resources before revaluation ,collections capitalisation and reversal of notional costs	(4,273)	(3,000)
Reversal of Notional Cost of Capital	4,484	4,789
Grant-in-Aid – Major Capital	(3,347)	(4,363)
Other Capital Grants	(1,825)	(1,989)
Interest Received	(163)	(98)
Depreciation, permanent diminution in value and loss on disposal	5,103	4,964
Transfer to capital	840	474
Movement in restricted funds	52	(135)
Decrease/(increase) in stocks	1	(19)
Decrease/(increase) in Debtors	601	(61)
(Decrease)/increase in Creditors	(303)	(2)
(Decrease)/increase in Provisions for Liabilities and Charges	158	196
Net Cash Inflow from Operating Activities	1,328	756

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

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	
	2007	2006
	£000	£000
Opening Cash Balance	3,836	2,356
Change in Year	77	1,480
Closing Cash Balance	3,913	3,836

18. Capital Commitments

	GROUP	
	2007	2006
	£000	£000
Contracted but not provided for in the Accounts	5,942	3,751

19. 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:

	2007	2006
	£000	£000
Trading profits from continuing operations	411	413
Gift aid to NMS	(408)	(467)
Profit/(loss) after gift aid	3	(54)
Interest Income	22	22
Profit reported in Consolidated Income and Expenditure Account	25	(32)
Reserves at 1 April	(250)	(218)
Transferred from Income and Expenditure Account	25	(32)
Reserves at 31 March	(225)	(250)

20. Related Party Transactions

The National Museums of Scotland is a Non-Departmental Public Body (NDPB) sponsored by the Scottish Executive which is regarded as a related party. During the year NMS has had various material transactions with the Scottish Executive. 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 Sir John Ward and James Fiddes, trustees of NMS were also trustees of NMSCT. NMS received £88k in grants and donations from NMSCT during the year (2006 £127k).

The following trustees were also members of the NMS Enterprises Board: Sir Angus Grossart and Michael Kirwan.

21. Cost of Capital

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

The Cost of Capital charge is based on the average relevant balance sheet values over the year.

	2007	2006
	£000	£000
Average Balance During the Year	128,102	136,870
Notional Interest at 3.5% (2006 =3.5%)	4,484	4,789

Guidance on appropriate rates is contained in the publication "Financial Reporting Manual". The rate of 3.5% (2005/06- 3.5%) is suggested as being appropriate to NDPBs which are not engaged in activities which compete directly with the private sector.

22. Leases

NMS has no finance leases. NMS leases computer equipment and the farm buildings and land at the National Museum of Rural Life under operating leases. Future rental commitments at 31 March were as follows:

	GROUP AND NMS	
	2007	2006
	£000	£000
Payable Within One Year	60	59
Payable After One Year	48	73

23. Contingent Liabilities

There are no contingent liabilities as at the 31 March 2007.

24. 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 included in the Balance Sheet under both Cash at Bank and Sundry Creditors. Separate accounting arrangements are made for the fund.

	2007	2006
	£000	£000
Balance at 1 April	59	29
Grant Received	200	200
Disbursements	(155)	(170)
Balance at 31 March	104	59

25. Date of Issue of Accounts

The accounts are authorised for issue on the date they are signed by the external auditor and must be laid before Parliament before being released.

26. Post Balance Sheet Events

There were no material post balance sheet events prior to the date of issue of the Annual Report and Accounts.

FINANCIAL MEMORANDUM: APPENDIX 2



NATIONAL MUSEUMS OF SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

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

A handwritten signature in black ink, appearing to read 'David Stewart', is written over a horizontal line.

Signed by the authority of the Scottish Ministers

Dated 31 March 2006