

Presented pursuant to the Merseyside Museums and Galleries Order 1986, (as amended by the Museums and Galleries Act 1992) No. 226, Art 2, para 8(7)

National Museums and Galleries on Merseyside Annual Report and Accounts 2004-2005

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 8 FEBRUARY 2006

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Annual Report

Legal and Administrative Information

Name of the Charity

National Museums & Galleries on Merseyside (NMGM). NMGM is an exempt charity by virtue of Schedule 2 to the Charities Act 1993.

On the 16 April 2003 the Board of Trustees adopted the operating name "National Museums Liverpool" (NML). Government reporting protocols require that the statutory name be used to identify the account on the cover and sheet headers, where possible the operating name or its abbreviated form has been used throughout the Annual Report, Foreword and Financial Statements.

Governing instrument and constitution of NML

NMGM was established as an incorporated Trustee Body by the Merseyside Museums and Galleries Order 1986 which was laid before Parliament on the 13 February 1986 by the Chancellor of the Duchy of Lancaster following a recommendation to Her Majesty in Council under section 46 of the Local Government Act 1986 (amended by the Museums and Galleries Act 1992).

NML is a Non Departmental Public Body (NDPB) sponsored by the Department for Culture, Media and Sport (DCMS).

Trustees

The Board of Trustees during the year comprised:

Mr David McDonnell, Chairman

Professor Drummond Bone (appointed 01.04.2004)

Sir Neil Cossons OBE

The Rt Hon the Earl of Derby

Cllr Frank Doran

Mr Brian Gray MBE

Professor Chris Green

Mr Loyd Grossman OBE

Dr Janet Kear OBE

Professor Margaret MacKeith CBE

Mr G Barrie Marsh

The Viscountess Mersey

Professor Sarah Palmer

Mrs Alexis Redmond

Professor Gordon McGregor Reid

Mrs Gillian Reynolds MBE

Lorraine Rogers (appointed 28.07.2004)

Cllr Mike Storey (appointed 01.03.2005)

Professor John Tarn OBE

Mrs Eva Wisemark

Mr Brian Wong (appointed 19.04.2004)

At the end of March 2005 Mr David McDonnell retired as Chairman and Mr Loyd Grossman OBE assumed as Chairman from 1 April 2005. The Trustees record their utmost thanks and appreciation for Mr McDonnell's valuable services as Chairman. Professor Drummond Bone, Ms Lorraine Rogers, Mr Brian Wong and Cllr Mike Storey also joined the Board during the year. Sadly, Dr Janet Kear OBE died after a short illness on 24 November 2004; the Trustees record their thanks and appreciation for her services as a Trustee since 1997.

Trustee Committees

The following Trustee committees met during the year:

Finance Committee, Chair – Mr David McDonnell

Audit Committee, Chair – Professor Margaret MacKeith CBE

Corporate Services Committee, Chair – Professor John Tarn OBE

Development & Communications Committee, Chair – Mrs Gillian Reynolds MBE

Human Resources Committee, Chair – Mr G Barrie Marsh

Development Trust, Chair – Mrs Gillian Reynolds MBE

Public Services Committee, Chair – Sir Neil Cossons OBE

Remuneration Committee, Chair – Mr David McDonnell

Register of Interests

A register of material interests disclosed by individual Trustees is available on request for inspection at the Principal Office along with minute book entries of disclosures made at Trustee meetings.

Open Government

NML fully complied with the Government's *Code of Practice on Access to Information* and also embraced the requirements of the *Freedom of Information Act 2002*. NML's publication scheme can be found at www.liverpoolmuseums.org.uk/about/foia/ps_museuminfo.asp.

Copies of the proceedings of the Board of Trustees, excluding items of genuine confidentiality, are also available on our website (summaries in the case of meetings prior to 2004/05).

Principal Office of NML

World Museum Liverpool (formerly Liverpool Museum)
William Brown Street
Liverpool
L3 8EN

Bankers

National Westminster Bank Plc
PO Box 138
22 Castle Street
Liverpool
L69 2BE

Auditors

Consolidated Account
The Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

Trading Company
MacFarlane & Co
Cunard Building
Water Street
Liverpool
L3 1DS

Solicitors

Halliwells
100 Old Hall Street
Liverpool
L3 9TD
(merged with Cuff Roberts)

Mace and Jones
19 Water Street
Liverpool
L2 0RP
– For employment law

E Rex Makin & Co
Whitechapel
Liverpool
L1 1HQ
– For compensation claims

Advice on construction law is taken from:
Hammond Suddards Edge
Trinity Court
16 John Dalton Street
Manchester
M60 8HS

Friends

The newly constituted Friends of the National Museums Liverpool made a significant contribution to the visitor experience during the year. Once again Trustees would express their appreciation of this voluntary commitment.

Operating and Financial Review

Operating Review

Business Objectives and Strategy

NML is one of a number of national museums sponsored by the DCMS; its activities impact upon several economic sectors, locally, regionally and nationally.

NML:

- preserves, interprets and exhibits its inherited and acquired cultural assets;
- creates, develops and delivers learning programmes;
- ensures that its museums and galleries are also popular cultural attractions;
- reaches out beyond the confines of the galleries to wider social and cultural communities;
- plays its part in wider civic initiatives; and
- contributes to the economic regeneration of the area.

NML is one of two English national museums outside of London. It competes for visitors with other cultural and visitor attractions however it makes a significant annual contribution to the programmes and strategies of regional museums and other cultural bodies.

The range of services provided by NML are managed and delivered by five operating divisions. These are the:

- Public Services Division;
- Development and Communications Division;
- Corporate Services Division (replaced by Finance, ICT & Procurement);
- Human Resources Division; and
- Directorate Division.

The Directors and Heads of these Divisions constitute the Executive Team.

There are two strategic management levels below the Executive Team, namely, the Senior Management Team and the Strategy Forum.

There are eight public museums within the NML family. These are:

- World Museum Liverpool (formerly Liverpool Museum) – William Brown Street, Liverpool;
- Walker Art Gallery – William Brown Street, Liverpool;
- Merseyside Maritime Museum – Albert Dock, Liverpool;
- Museum of Liverpool Life – Pier Head, Liverpool;
- Conservation Centre – Whitechapel, Liverpool;
- Lady Lever Art Gallery – Port Sunlight Village, Bebington, Wirral;
- Sudley House – Mossley Hill Road, Liverpool; and
- Customs & Excise National Museum – Albert Dock, Liverpool.

Vision and Beliefs

NML subscribes to a *Statement of Beliefs* which is widely promulgated. These are summarised below:

- **NML has a responsibility to the whole of society.** Everyone, regardless of age, identity, ability or background, has a right to expect that we will be enjoyable and welcoming, providing routes to discovery, awareness and learning for all;
- **NML is committed to study, care for and enhance our world-class collections,** making them accessible to all;
- **NML is a creative, energetic and dynamic organisation** which must be managed imaginatively and effectively. We are prepared to identify and embrace opportunities, to experiment, take risks and use innovative approaches to achieve our aims;
- **NML must always be modern, radical and responsive.** We will build on our strengths, but we thrive on change. We believe in continuous assessment, transparency and openness, listening and reacting to our users, and in improvement of all that we do;
- **NML values teamwork and co-operation which is inherent in all that we do.** We will create a working environment where respect for different roles and talents is paramount, and all staff feel motivated, promoting quality, trust and integrity, and
- **NML grows stronger through partnerships** –, community, cultural, educational and business. We will build such relationships wherever it helps us achieve our aims, while helping others achieve theirs.

Management of Human Capital

NML places great importance upon the development of the potential within all staff and constantly seeks to develop the skills and competencies the organisation needs to be successful. There has been continued significant investment in Management Development with some 120 managers completing this programme by July 2005. A third phase of 80 managers will start the next programme in September 2005.

NML recruits staff through fair and open competition and is committed to selection on merit.

In 2004/05 a total of 105 appointments were made and of these:

- 55.0% were women;
- 1.9% were disabled people; and
- 11.4% were non-white British / of an ethnic minority background.

There were no instances where the “fair and open competition and selection on merit” procedures were by-passed.

Involvement of employees in the affairs, policy making and performance of NML

All staff are encouraged to become involved in the formation and delivery of policies and to contribute towards the assessment of performance effectiveness within NML.

NML formally recognises two trade unions: Prospect and the Public and Commercial Services Union.

The Trustees' deliberations and resolutions are disseminated through the Corporate Plan, Divisional and Departmental Meetings and circulation of Board minutes. A newsletter and monthly Director's bulletins are issued covering current events and activities.

The decisions of the Executive Team and specific working groups are communicated via an agreed briefing process.

Disabled Persons

NML and its subsidiary trading company continued to apply established policies toward the employment, training and development of disabled persons. Staff are actively encouraged to become involved in the assessment of policies affecting the employment, training and personal development of people with disabilities, through an equal opportunities working group. NML will facilitate an occupational health and workplace assessment to consider any reasonable adjustments necessary to be able to perform the role for both job applicants and existing employees who have a disability.

Appropriate training is arranged for people with disabilities, including retraining for employees who become disabled, to promote career development within NML. A Disability Working Group actively reviews the requirements of the Disability Discrimination Act, the aim of which is to eliminate discrimination against disabled people.

Investors in People

NML originally received the prestigious Investors in People award in 1994 and then successfully retained this standard in its subsequent triennial re-assessments, in 1997, 2000 and again in May 2003. The standard has provided a framework within which staff are offered the training and development they require and NML's policies and procedures can be constantly reappraised. This award has added to the success, and also raised the profile, of the organisation as a whole. The standard continues to be an important measure of NML's commitment to, and success in, the training and development of its staff. A further re-assessment against the standard is due in May 2006.

Staff Resource Strategy

NML seeks to assess its manpower requirements and associated skill sets over the medium to longer-term through a Staff Resource Group led by members of the Executive Team.

NML is aware of the need to maximise efficiency whilst delivering improved performance and is continually assessing the manner in which business is delivered.

Volunteer Programme

NML's volunteer programme is continuing to gain pace, and investment in support of the programme has delivered a 21% increase in the number of volunteers across the organisation. During 2004-2005 we hosted 222 volunteers and the contribution of these volunteers has now reached the equivalent of approximately 28 full time posts.

During the year we also hosted 168 placements from various sources, ranging from local schools to international students, establishing partnerships with a wide range of educational bodies. Links were also established with local and national placement organisations representing disabled or long term unemployed.

NML is committed to developing the role of volunteers in the organisation and is working to progress within the standards set out in the Investors in Volunteers framework. This will ensure that NML works to best practice standards in the recruitment, retention, development and management of volunteers.

Health & Safety Policy

NML is committed to providing a safe and healthy working environment for all our employees, including those of NMGM Enterprises Ltd for whom this policy applies equally. So far as is reasonably practicable, systems and procedures will be implemented to ensure that all equipment, plant, substances and premises are safe and free from adverse effects to health. It is a key objective of this policy to ensure that employees, the public and others affected by our activities are exposed to the lowest reasonable level of risk.

The health and safety policy is reviewed every 12 months and the Health and Safety Officer plays a lead role in ensuring that Senior Management is kept informed of current and future legislation, that management systems are in place, and that adequate resources, financial or otherwise are allocated to health and safety. Health and safety statistics and any underlying issues are reviewed on a regular basis by senior management and the Trustees.

Performance

The Director and Trustees wish to acknowledge the contributions made by all of NML's staff during the year. Without the continuing commitment and dedication of staff at all levels the plans of NML would not be realisable.

Collections

Collections Management activities have continued in conjunction with other programmes over the past year. The Registrars department has started a work programme which will lead to the formation of collections management priority plans and help determine the allocation of resources.

Progress continues on the conversion of collection records to a digital format.

In November, we launched in-house Collections Management training for NML staff. This is the first time that NML has designed and delivered its own complete training course to support its activities and staff undertaking museum profession and other vocational training. The course is probably the most comprehensive in house curatorial training scheme in the country, and in recognition of the dearth of quality training in this core area we intend to roll the training out to include delegates from other organisations in the near future.

During the year, the storage of over 60,000 geology specimens was reorganised to improve location control. The Fine Art department embarked upon a programme of improvements to its collection stores and over 100 cabinet drawers of the entomology collections containing the British Diptera (true fly) collection were re-housed. The British dragonfly collection was documented through volunteer efforts.

In preparation for the Human Tissues Act 2004, we carried out a survey of relevant holdings, mostly involving the Liverpool Museum, moved them to appropriate storage, and began consultations on possible future repatriation of some of this material to New Zealand.

Acquisitions

The most significant acquisitions this year were:

- Purchase of two works from the 23rd John Moores exhibition (including the first prize winner, *Slump/Fear (orange/black)* 2004, by Alexis Harding) and an outstanding example of art deco ceramics, *Tea for Two* by Clarice Cliff, for the Walker;
- World Museum Liverpool commissioned a full size replica skeleton of a pterosaur (*Quezalcoatlus northropi*) – the largest creature ever to have flown – to hang in the new atrium of the museum. It is currently the only full size replica skeleton in Europe, and was acquired with financial assistance from the Friends of NML to celebrate their 25th anniversary. This has been very popular with visitors to the new museum since the new galleries and public spaces opened in April 2005;
- The Merseyside Maritime Museum added to its collection of material related to Liverpool's involvement with the slave trade with the acquisition of a creamware ship bowl featuring the slave ship *Lord Stanley*, and a watercolour portrait of Captain Hugh Crow (1765-1829) by A R Burt. Hugh Crow was captain of the last slave ship to leave Liverpool in 1807; and
- The Museum of Liverpool Life acquired two major groups of material associated with Meccano and a collection of 24 Liverpool Stadium programmes, including one from the Stadium's opening night in 1932.

Once again we have benefited from the Government's Acceptance in Lieu of Tax Scheme (AIL), with the allocation of *Cydon and Iphigenia* by Sir John Millais for display at the Lady Lever Art Gallery.

In addition to the above a number of artefacts were gifted to the collections during the year, the significant items are listed in note 6.

The Trustees wish to express their gratitude to all of the donors.

Loans

By the end of the year 2004/05 we had made around 79 loans to venues in the UK, Europe, America and Australia. World Museum Liverpool (formerly Liverpool Museum) continued to make important loans to facilitate research in the natural sciences to institutions in Australia, America, Europe and the UK. Major progress was also made in the management of two complex and significant loans: the loan of the Blue Streak Rocket to the National Space Centre, Leicester and of a group of twenty six classical sculptures to Castle Howard, Yorks. Significant outward loans included:

- *The Birth of the Virgin* by Pietro Perugino, to the exhibition entitled *The Paintings of Perugino*, held at the National Gallery of Umbria, Perugia, Italy;
- 27 works on paper and one painting by Walter Sickert to a three venue touring exhibition, *Walter Sickert: "drawing is the thing,"* shown at the Whitworth Art Gallery, Manchester in 2004 and Southampton City Art Gallery and Ulster Museum in 2005;
- One drawing by Francesco Primaticcio to an exhibition of this artist's work at the Musee de Louvre, Paris;
- George Stubbs' painting *Horse Frightened by a Lion* to the exhibition *Stubbs and the Horse*, touring to two venues in the USA and the National Gallery, London;
- Two paintings by Lucian Freud and David Hockney to Manchester City Art Gallery under the Partners in Art Scheme;
- Three historically important birds, collected by John James Audubon, to Liverpool City Libraries for their exhibition on Audubon;
- Two pumps and related material to Rolls Royce Heritage, Derby for display in their permanent galleries;
- A group of Egyptian material to *Pharaoh is Always Winning – War and Peace in Ancient Egypt*, touring to three venues in Germany;
- A small group of seventeenth century instruments from the Physical Science collections to Astley Hall, Chorley for the exhibition *Jeremiah Horrocks and the Transit of Venus*;
- Six items to the touring exhibition, *Life at Sea*, organised by Aberdeen Maritime Museum, on behalf of the United Kingdom Collections Strategy, which will tour until 2006;
- Photographs and models from the Liverpool School of Hygiene collections to the Musee de Histoire, Luxembourg for the exhibition *History & Purpose of Hygiene and Public Health in Europe*; and
- Nine items to *Come on the 63rd*, an exhibition at the Museum of the Manchester Regiment, to commemorate the 150th anniversary of the Crimean War.

Conservation

Fewer objects were treated than last year, around 900, although the level of demand has remained constant. The difference is accounted for by the installation and mount making both for loan-in exhibitions and for the *Into the Future* galleries. An Object Dusting Team was created to care for objects on display.

Major projects were: conserving *Ruins of Rome* by Panini for the Walker Art Gallery, the spectacular George Bullock chandelier in the new Craft and Design gallery, and a group of 18 Tibetan thangkas and several hundred organic items for the World Cultures galleries at World Museum Liverpool. The Handling Team hung 310 paintings in four and a half weeks for *John Moores* and *Stuckists*, while Technical Services craned a 41 feet high totem pole and two Egyptian Sekhmet statues weighing over a ton each into World Museum Liverpool for the new displays.

Research and Scholarship

The highlights of this year's work are contributions to the *Encyclopaedia of 19th Century British Scientists*, to *America's Curious Botanist: a Tercentennial Reappraisal of John Bartram 1699-1777*, to the *New Dictionary of National Biography*, and to the IUCN-sponsored publication of *Global Amphibian Assessment for Africa*. A two-year grant-aided ecological study of two Red Data Book bugs was completed for the Countryside Council for Wales and the first detailed research of a unique group of 17th century ceramics from Buckley, North Wales was published live on the World Wide Web. Catalogues were published to accompany two exhibitions at the Walker: the 23rd John Moores exhibition of contemporary painting and *The Stuckists: Punk Victorian*. A survey of ship model collections in the UK was undertaken for the national Maritime Curators Group. There were also around 40 other publications comprising catalogues, articles papers and reviews.

A survey of current scholarship and research activity was undertaken by each of the Keepers. This has provided a base line from which each Keeper can make an assessment of projects in hand and identify outcomes for forward job planning purposes. By this process we will set a prioritised scholarship strategy for each division, identifying gaps in knowledge and promote a commissioning system for future work, at the same time ensuring that individuals' work programmes both have strong academic purpose and result in appropriate public outputs.

Public Programmes and Audience Development

Free admission was extended to the planetarium at World Museum Liverpool and to events at all NML venues. We now have free admission for all exhibitions and activities that we offer to the public.

Exhibitions

Our exhibitions for 2004-05 covered a broad range of subjects, attracting diverse audiences. There was a strong focus on contemporary art at the Walker Art Gallery with an exhibition of stroboscopic and moving sculptures by Tim Lewis, followed in the autumn by a series of exhibitions opened as part of the Liverpool Biennial, the *John Moores 23* exhibition of contemporary art, and the first ever public gallery exhibition of works by the Stuckists, shown at both the Walker and the Lady Lever Art Gallery. The Walker also staged *Past Modern: The Singh Twins*. A small but very successful exhibition of watercolours by Turner and Williamson, *In the Haze*, proved to be a significant draw at the Lady Lever Art Gallery during the summer, demonstrating the attraction of historical and pre-Raphaelite artists.

Puppet Worlds and *Beatrix Potter's Garden* at World Museum Liverpool proved popular with family audiences, and in particular pre-school and nursery groups. *Spirit of the Blitz*, about Liverpool in World War II, the first major exhibition to be held in our new exhibition suite at the Merseyside Maritime Museum, continued to attract large numbers during its 18-month run. In January 2005, the Merseyside Maritime Museum opened *Liverpool to New York: the only way to cross*. The opening also acted as the launch event for Liverpool's Year of the Sea celebrations.

Community has been a strong theme for 2004 with an exhibition, *Yours Faithfully*, at the Museum of Liverpool Life celebrating Liverpool's diverse faith communities, and *Art DIY*, an art exhibition at the Walker involving 15 community organisations created in collaboration with Channel 5, the Arts Council and the Worker's Education Association North West. This theme is continued into 2005 with *Living it Up*, an exhibition about living in high-rise dwellings, and *Making Sense*, featuring the work of patients recovering from brain injuries.

Learning and Outreach

The Learning Division undertook a major review and adopted a Development Plan in November 2003, so establishing a framework for strategic planning and the growth of the public offer. This has been consolidated and built on during 2004/05. Our aim is to create a learning programme to attract lifelong learners locally, from across the region and nationally.

Priorities over the year have included: the development of early years learning (focused in part on the creation at the Walker of the first dedicated national museum Children's Gallery, to open in 2005), working with a network of Early Years providers across Merseyside; the development of Key Stage 3 science and arts programmes, with special relevance to the new galleries to open at World Museum Liverpool in 2005; vocational programming for 14-18 year olds, reaching socially excluded young people; and basic skills development for young people and adults.

Strategic Partnerships

We negotiated a new agreement with Customs & Excise that will maintain our responsibility for their national collection until at least 2009. This new agreement includes funds for a major redevelopment of the display within the Merseyside Maritime Museum.

Several new "strategic partnerships" were established through our new Museum Partnerships department, notably with Manx National Heritage, Knowsley Borough Council, the University of Liverpool, and a *Partners in Art* agreement with the Manchester City Art Gallery.

Building Programme

The Capital Programme of the Trustees currently under development includes:

- the completion of the HLF funded *Into the Future* project (practical completion achieved in April 2005);
- the conceptual and design development for a new Museum of Liverpool;

- the creation of a new National Museum and Centre for the Understanding of Transatlantic Slavery, which includes the prospective acquisition of the former Dock Traffic Office;
- a capital repairs programme; and
- a new National Museum of HM Revenue and Customs and various developments at Sudley House, the Conservation Centre and the Lady Lever Art Gallery.

Management Programme

This year we have reorganised our management structure, thus streamlining strategic operations, and carried out an organisational review by way of a "health check" of the distribution of staff resources as between our various activities. An important objective in this review was to set us up to achieve the targets in the efficiency delivery plan that all Non-Departmental Public Bodies (NDPBs) are required to deliver, by aligning the key areas of Finance, ICT and procurement within the same Division.

Support for staff training and development has seen significant investment in Management Development with some 120 managers completing this programme by July 2005. Earlier investment in support for the Volunteer Programme has delivered an increase of between 21% and 32% across all areas of volunteer activity.

Among a range of other activities, we entered into a project with the Carbon Trust to seek further energy efficiency measures through the use of "advanced metering," and ensured compliance with the Freedom of Information Act, supported by a series of training workshops for staff at all levels.

Fund Raising

Fundraising

During the year a major grant of £4,000,000 was agreed with the Northwest Development Agency (NWD) and the Government Office for the North West (GO-NW). This grant will allow the development of the Museum of Liverpool within the Mann Island regeneration footprint to be carried forward.

Also over the past year, we continued to attract support from a wide variety of sources receiving many gifts from trusts, foundations, the public sector and individuals. We have continued to benefit from Liverpool being named *European Capital of Culture 2008* and the interest this has generated in Liverpool's arts and heritage industry.

Large grant payments, or pledges of grant assistance, were received from:

- the Arts Council England and the John Moores Liverpool Exhibition Trust for *John Moores 23* exhibition;
- the DCMS, through the Wolfson Museums and Galleries Improvement Fund for the Children's Gallery at the Walker Art Gallery;
- the DCMS, through its Strategic Commissioning programme, continued to support NML's partnership project *Engaging Refugees and Asylum Seekers*;
- the Friends of National Museums Liverpool for the refurbishment of Sudley House, as well as many smaller donations to other projects;
- the Heritage Lottery Fund continued to support the restoration of the Lutyens Model;
- the Rank Foundation for the new position of Trainee Youth Arts Officer; and
- ReDiscover for the new Reveal gallery at the Conservation Centre.

Many other charitable trusts and foundations gave smaller donations.

We continued to attract generous support from local businesses and worked hard to extend our relationship with the business community. Nine new companies joined Rathbones, Credit Suisse and David M Robinson Ltd as members of Business2008, our business club, those companies are: Austin Smith Lord; Tower Group Plc; Hill Dickinson; Mersey Waste Holdings; Brabners Chaffe Street; Davis Lagoon LLP; Mersey Docks and Harbour Company; Finch Partnership and Mitchell Charlesworth. Halliwells, formerly Cuff Roberts, continued their support of NML as corporate partners. Channel 5 Broadcasting Limited (Five), in partnership with Arts Council England, sponsored the *Fivearts cities* events. Numerous companies and organisations joined Plexus Cotton in supporting the *100% Cotton* exhibition, Cunard Line sponsored *Liverpool to New York* and the Liverpool Culture Company pledged large sums to both Slavery Remembrance Day and the Ben Johnson project.

Development Trust

The fundraising activities of NML continued to receive valuable support from members of the Development Trust Committee. Gillian Reynolds continued her tenure as Chairman with great success and the two Vice-Chairmen were equally successful, each hosting Trust meetings in their respective cities.

The membership of the Trust for 2004-2005 was:

His Grace The Duke of Westminster KG OBE TD DL (Patron)

Gillian Reynolds, MBE (Chairman)

Neil Ashbridge (Vice Chairman, Liverpool based)

John Bodie, OBE (Vice Chairman, London based)

Sir Jack Baer

Marilyn Caron-Delion

The Countess of Derby

Niall Hobhouse

The Rt Hon Baroness Hooper

The Viscountess Mersey

Mark McNamee

Julian Rathbone

Lorraine Rogers

Foreword

Financial Review

Account

The account is prepared in a form directed by the Secretary of State for Culture, Media and Sport, in accordance with Sections 8(1) to 8(8) of Schedule to the Merseyside Museums and Galleries Order 1986 and complies with the Charities Act 1993, the Charities (Accounts and Reports) regulations 1995 and the Statement of Recommended Practice: Accounting by Charities (SORP).

Result

Net incoming resources for the year were £7,002,000. A revaluation of tangible fixed assets as at 31 March 2005 produced a revaluation surplus of £11,008,000 resulting in a total increase in funds of £18,010,000.

Included within the above was a net increase in free funds of £1,271,000 before transfers to capital and designated funds of £694,000. The closing balance on free income fund was £4,252,000.

Reserves Policy

The Trustees have established a policy whereby the unrestricted funds not committed or invested in tangible fixed assets ("the free reserves") should cover the estimated reserve requirement, based upon a risk assessment, over the period 2005/06 to 2008/09. The current risk and reserve requirement for this period is £3,360,000.

The free income reserve amounted to £4,252,000 at the 31 March 2005. The Trustees plan to ensure financial viability across a three year revenue planning cycle. In respect of capital projects the associated planning cycles can be longer than the current three year spending review periods necessitating an extended planning profile. With Capital of Culture year approaching in 2008 and with the potential involvement in a number of large capital projects, the need for a substantial general fund balance at the commencement of the current planning cycle is seen as essential.

The Fourth Grace Project and a new Museum of Liverpool

On the 19 July 2004 the public sector partners within the Fourth Grace Project took the decision not to proceed with its development and the project was terminated.

The importance of the development of the Mann Island site within the strategic regeneration plans for the City Centre was, however, recognised and a new partnership was formed. A new Museum of Liverpool was seen as a baseline development for the site and a pre development grant of £4,000,000 was made to NML by the Northwest Development Agency.

At the 31 March 2005 expenditure of £848,000 had been made against this grant. This expenditure has been treated as assets in the course of construction.

NML Into the Future (NMGMI TF)

At 31 March 2005 the total accumulated spend on NML's major, lottery funded, capital project – "Into the Future" amounted to £43,906,000.

Of this, £33,162,000 has been transferred to the balance sheet as operational assets with £10,744,000 remaining as assets in the course of construction.

Practical completion of the project was reached on 28 April 2005 and a final account will be agreed in 2005/06. Expenditure against the cost elements of the project is analysed at note 6.

Fixed Assets

NML continues to hold the proceeds from two asset disposals:

- 1) £215,393 is held, as yet unapplied, in respect of 63/65 Blundell Street, Liverpool.
- 2) £385,000 is held, as yet unapplied, in respect of the disposal of NML's leasehold interest in storage facilities at Irwell Street, Liverpool.

Consent for the disposals was obtained from DCMS and the proceeds will be applied to capital projects going forward. These unapplied amounts form part of the Capital Reserve fund representation.

During the year NML's land holdings were reviewed by Drivers Jonas and revalued producing an increase in funds of £703,200. The cost / valuation of buildings was increased through the application of an indexed movement to gross values, excluding additions in the year. This upward movement increases funds by £10,304,000.

The indexation movement on other asset categories was such that no adjustment was required as they were not deemed to be material.

Trading Subsidiary

NML wholly owns a subsidiary trading company, NMGM Enterprises Limited (NMGME), which provides a range of catering, retail, conferencing and general support services. The gross merchandising income and the associated revenue costs of the operation are shown within the consolidated Statement of Financial Activities as adjusted for group transactions. The assets and liabilities of the subsidiary trading company are combined with those of NML within the Balance Sheet. A summary of the results and net assets of NMGME is shown at note 9 of the account.

During the year NMGME produced profits of £89,000 which, together with retained earnings of £5,000, will be transferred to NML by way of a Gift Aid arrangement.

Customs & Excise National Museum

In addition to the Grant-in-Aid (GiA) received from the DCMS, NML also receives GiA support from HM Revenue & Customs (HMRC). This arrangement is specifically related to the conservation, study and display of the national collection of HMCE. A summary of the HM Revenue & Customs Account is shown at note 15.

Connected Charities

Nine charitable trusts, whose legal existence pre-dates that of NMGM, are connected to NML's activities via a commonality of trusteeship and a close association of charitable purpose. The accounts of the trusts are not consolidated with that of NML. However, note 20 to the account contains a summary of the income and capital accounts of the connected charities for the year ended 31 March 2005.

Speke Hall

An agreement entered into by Ministers in 1986 requires NML to make annual GiA payments to the National Trust towards the upkeep of Speke Hall until 2015. The level of this grant is agreed annually between NML and the National Trust and for the year ended 31 March 2005 the GiA was settled at £167,000. All of this was paid during the year. The grant is associated with the revenue activities of Speke Hall and is not capital in nature.

Prescot Museum

NML makes an annual payment of grant to Knowsley Borough Council. The settlement is negotiated annually. The payment relates to the running costs of Prescot Museum which houses most of NML's horology collections. The collections are held under a Trust Document. The level of support for 2004-2005 was £73,000 none of which had been paid during the year. By mutual assent, this agreement is to be terminated from 1 April 2007.

Gower Street Estates

NML is a member of Gower Street Estates Limited (GSEL) a company formed to manage those areas within the Albert Dock formerly managed by the Merseyside Development Corporation which ceased to exist as a body on 31 March 1998. The company is limited by guarantee and is non-profit making. The activities of the company are covered by a service charge levied on members which is calculated after taking into consideration any earned income. The service charge applicable to NML for 2004-2005 is referred to in note 16.

NML has the right to nominate a director for election to the Board of GSEL and during 2004-2005 the Head of Projects, Mr J Hendry, served as a Director.

Prompt Payment of Creditors

NML is aware of the importance of paying suppliers promptly and takes every step to ensure that payments to creditors are made as quickly as possible. In 2004-2005, 93.5% (2003-2004 – 67%) of NML's creditors were paid within 30 days of the invoice date.

NML is committed to the full implementation of the Better Payment Practice Code. There were no payments of statutory interest under the Late Payments of Commercial Debts (Interest) Act 1998 during the year.

Audit

Under statute the Comptroller and Auditor General is the principal auditor of the Museum's consolidated account for the year 2004/05. The audit fee in respect of this work was £36,000.

DR DAVID FLEMING OBE
Director and Accounting Officer
National Museums & Galleries on Merseyside
Date: 30 January 2006

MR LOYD GROSSMAN OBE
Chairman of Trustees
Date: 30 January 2006

Annex to the Foreword and Annual Report for the year ended 31 March 2005

KEY PERFORMANCE INDICATORS – 2005 OUTTURN

| Performance Indicator | 2002-03 Actual | 2003-04 Actual | 2004-05 Core Targets | 2004-05 Actual |
|---|-------------------|-------------------|-------------------------|------------------------|
| (DCMS Core targets are shaded) | | | | |
| PI 1(a1) Number of total visits | 1,240,000 | 1,525,520 | 1,400,000 | 1,537,590 ¹ |
| PI 1(a2) Number of adult visits | 880,000 | 1,154,600 | – | 1,137,463 |
| PI 1(a3) Number of child visits | 360,000 | 370,920 | 550,000 | 400,127 ² |
| PI 1(a4) Number of over 60s visits | 322,000 | 366,125 | – | 399,773 |
| PI 1(a5) Number of overseas visits | 49,600 | 106,786 | – | 107,631 |
| PI 1(a8) Number of repeat visits | 489,000 | 579,698 | – | 584,284 |
| PI 1(c1) Number of web-site visits | | | | |
| <i>Original counting methodology</i> | 3,340,000 | 3,832,931 | – | – |
| <i>New counting methodology</i> | – | 888,169 | 1,000,000 | 2,180,337 |
| PI 2(a & b) Number of UK and overseas loan venues (from 2003-04 venues in England only) | 95 (UK) | 65 | 75 | 49 ³ |
| PI 3 %age of collection stored in correct environmental conditions | 91.5 | 87 | – | 85 ⁴ |
| PI 6 %age of collection internet accessible | 28.3 | 28.3 | – | N/A ⁵ |
| PI 8 % of time open | 57 | 57 | – | N/A ⁵ |
| PI 11 % of visitors who thought the museum/gallery overall was good/very good | N/A | 97 | – | 97 |
| PI 12 (a) Number of learners in onsite educational programmes | 99,000 | 111,662 | – | 188,000 ⁶ |
| PI 12(b) Number of learners in educational outreach programmes | 2,436 | 5,001 | – | 8,270 |
| PI 12(c) Numbers of children in on and off-site organised educational sessions | 71,800 | 93,981 | 90,000 | 135,000 ⁷ |
| PI 14 Number of C2DE visits required to achieve an 8% increase by 2005-06 on the 2002-03 baseline | 446,582 | 442,401 | 451,000 | 461,277 |
| PI 15 Grant-in-aid per visit | £13.92 | £11.36 | – | £11.28 |
| PI 18(r)(a) Revenue generated from sponsorship and donations per visit | £1.10 | £0.54 | – | £0.45 |
| PI 18 (r) (b) Other non-grant revenue generated per visit | £0.96 | £1.06 | – | £1.08 |
| PI 21(b) Average days lost sick per employee excluding long term sickness | 3.85 | 4.4 | – | 4.2 |

EXPLANATORY NOTES

¹ As agreed at NML's meeting with DCMS officials in January, the headline visitor data has been corrected for undercounting by magic eyes at three venues, identified earlier in the year, and carries forward into subsidiary data by way of survey result percentages.

² Currently excludes unaccompanied children who cannot be surveyed for legal reasons. New methodology will be devised to assist in overcoming this counting shortfall.

³ Trends in outward loans to English venues only are not regarded as significant.

⁴ Continuation of trend reported last year, consequent upon deteriorating plant at some locations, that will be addressed within our venue development plans.

⁵ Data not available at this time due to reassessment of calculation methods, the results of which will be reported at out-turn.

⁶ Counting methodology changed to accord with those used by other NMGs.

⁷ Correction to figure reported in December following an audit discovery of uncounted data.

Statement of Trustees' and Director's responsibilities

For the year ended 31 March 2005

Under paragraph 8(2) of the Schedule to the Merseyside Museums and Galleries Order 1986 the Board of Trustees of the National Museums & Galleries on Merseyside are required to prepare a statement of account for each financial year in the form and on the basis determined by the Secretary of State, with the consent of the Treasury. The account is prepared to show a true and fair view of the National Museums Liverpool's financial activities during the year and of its financial position at the end of the year.

In preparing the accounts the Trustees are required to:

- observe the accounts direction issued by the Secretary of State¹, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the account on the going concern basis, unless it is inappropriate to presume that NML will continue in operation.

The Accounting Officer for the Department for Culture, Media and Sport has designated the Director of the National Museums Liverpool as the Accounting Officer. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by the Treasury and published in Government Accounting.

DR DAVID FLEMING OBE
Director and Accounting Officer,
National Museums & Galleries on Merseyside
Date: 30 January 2006

MR LOYD GROSSMAN OBE
Chairman of Trustees

Date: 30 January 2006

¹ a copy of which is available from: The Director's Office, World Museum Liverpool (formerly Liverpool Museum), William Brown Street, Liverpool, L3 8EN.

Statement on Internal Control within NMGM

For the year ended 31 March 2005

1 Scope of responsibility

In NML responsibility for risk management is shared by the Board and the Accounting Officer, therefore the Statement on Internal Control (SIC) is signed jointly by the Accounting Officer and the Chair of the Board.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of National Museums Liverpool's (NML's) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

As Chairman of the Board of Trustees, I have delegated responsibility from the Board of Trustees for satisfying myself and the Board that such a sound system of internal control is maintained within NML.

NML is a Non-Departmental Public Body sponsored by the Department for Culture, Media and Sport (DCMS) and funded from Grant-in-Aid. The level of Grant-in-Aid is allocated on the basis of the Funding Agreement developed jointly between NML and DCMS and is administered under the terms of a Management Statement and Financial Memorandum to which both parties are signatories.

NML applies a set of core aims and beliefs that incorporate or take cognisance of Government and Departmental objectives as laid out in the Public Service Agreement (PSA) for DCMS. These government objectives are integrated with NML's own corporate objectives as defined in the three year Corporate Plan, the Annual Business Plan and the three year Funding Agreement and Management Statement and Financial Memorandum (MS & FM). To deliver the products desired and specified in these agreements, NML has a management team structure that:

- Is empowered by NML's Trustees through a scheme of delegation;
- Is well defined and whose roles, responsibilities and accountability are communicated appropriately;
- Operates a risk based management approach;
- Clearly defines roles and responsibilities and allocates accountabilities for the identification and management of risk; and
- Aims to foster close and flexible working arrangements at all levels in the organisation.

2 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 National Museums Liverpool'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 NML for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

NML management team is structured to ensure that key services and obligations are delivered in the most effective and efficient manner. The management team structure comprises three tiers of management:

- The Executive Team (ET) who provide strategic direction of the organisation's activities and comprise the Accounting Officer, a Director of Public Services, a Director of Development and Communications, a Head of Human Resources, a Head of Finance and a Museum Secretary;
- The Senior Management Team (SMT), responsible for the implementation of policies to achieve core aims, beliefs and operational objectives comprising the Executive Team and six Heads of Divisions; and
- The Strategy Forum, comprising the ET, SMT and Departmental Heads tasked with the delivery of corporate aims, beliefs and objectives whilst managing and containing the organisation's risks at an acceptable level.

NML has a well-defined Committee structure to ensure close conformity with best governance practice. This allows the institution to make best use of Trustees' expertise in areas where they can offer greatest experience and knowledge and introduces external non-executive members to enhance further the objectivity of the Committees in line with the Sharman recommendations. Committees are also structured to mirror the principal activities associated with the Directorates and Divisions represented on the Executive Team.

The introduction of the Strategy Forum provides an organisation wide focus group for the identification and allocation of responsibility and accountability across a spectrum of diverse activities. Members of the Strategy Forum at all levels have undergone training or awareness raising in the form of facilitated workshops to identify and record the risks or dedicated risk management training. Managers in the Strategy Forum understand that it is their responsibility to manage and contain NML's risks at a level that is acceptable to their senior management and the Trustees.

As part of the commitment to continuous improvement in all of NML's activities, a management development programme has been introduced to support and better enable managers in the Strategy Forum in the discharge of their responsibilities. This programme was completed for Strategy Forum members during 2004/05 and has been rolled out further to include more junior tiers of management.

3 Capacity to handle risk

During 2004/05 the Executive Team has continued to develop and increase the organisation's capacity to handle risk. To this end the Executive Team has put in place:

- An effective management team, integrated at many levels, vertically and horizontally, across the whole organisation, which meets to consider the plans and strategic direction of NML and the associated risks for the institution;
- A clear statement of its vision and beliefs to underpin all of NML's obligations and aspirations, including specific reference to an intention to adopt innovative ways of delivering our services;
- A suite of Trustee Committees linked closely to operational areas of responsibility and specifically an Internal Audit Committee which reports to the Board of Trustees regarding internal control and risk associated issues across all areas of activity;
- Mechanisms to receive regular and independent reports by the Head of Internal Audit in accordance with the Government Internal Audit Standards (GIAS) including his opinion on the adequacy and effectiveness of NML's system of internal control in containing risk at an acceptable level together with recommendations for improvement where required;
- Principle of managers who are specifically responsible for the management of risks in their areas of expertise and responsibility as part of a risk-based management regime;
- An organisation-wide risk register, completely reviewed and overhauled in 2004/05. The register is currently in the process of being reformatted to identify separately the strategic and operational risks;
- Key performance and risk indicators;
- The provision of statements on the adequacy and effectiveness of risk management from the Accounting Officer's principal Directorate Heads, tailored specifically to their areas of responsibility;
- The principle of determining corporate priorities using appropriate objective methodologies as required;
- A strategic planning process based on Directorates, which links priorities to resource availability in the form of funding and people; and
- An ongoing review and enhancement of existing and proposed policies to develop shorter more focused statements which will better enable managers to determine appropriate controls to address the associated risks.

4 The risk and control framework

All managers across NML are now aware of the importance of risk management and of their need to identify and manage risk. To this end the Executive Team has:

- Given access to workshops for the identification and recording of risks facing NML;
- Has adopted the Treasury's own "Orange Book" and "Orange Booklet for NDPBs" as NML's principal guidance on risk management and has made this available to all staff in an electronic version;
- Made provision for other supporting guidance to be made available in an electronic form on the IT network including its suite of Financial Control Guidance Notes;
- Implemented a management development programme that raises risk awareness;

- Ensured that rigorous risk assessments are carried out by the responsible officers within the management team to provide the best conditions for the optimum physical health, safety and security of our staff and visitors;
- Applied sensitivity analyses when developing activities which interact with our public; and
- Put in place a dedicated team to ensure that our activities reach out to our public to ensure that all individuals and groups are included in the scope of our activities.

5 Review of effectiveness

As Accounting Officer and Chair of the Board, we 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 within the National Museums Liverpool 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 the result 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.

NML has a dedicated **Internal Audit Committee** in line with the recommendations of the Sharman Report. This Committee meets at least three times a year and the Chairman reports to the full Board of Trustees. The inclusion of external members who are neither Officers nor Trustees of the institution has served to strengthen the membership.

NML has its own **Internal Audit Unit**, which provides a consultative service to the Accounting Officer and operational managers on control related issues. The Unit continuously reviews the methodologies it applies to ensure that its service is the most beneficial to the organisation and contributes effectively to the corporate risk based management approach. The Unit monitors and provides advice and assurance on:

- Managers' risk management strategies and measures, proposed and in place, to ensure that their assurances to the Accounting Officer are reliable and supportable;
- The adequacy and effectiveness of internal control systems and the overall control environment in NML; and
- Arrangements, proposed and in place, to ensure adequate and effective compliance with the requirements of NML's own internal policies and objectives and the external requirements contained in the MS & FM.

This year the Internal Audit Unit has undergone an independent peer review to determine the adequacy of its compliance with Government Internal Audit Standards. The outcome of the review will provide the Executive Team and Trustees with an opinion on the standard of service NML receives from its Internal Audit Team.

Internal Audit, in line with a risk based philosophy, provides a consultative service for the management team and during the year has carried out reviews of:

- Preparation for, and compliance with the Freedom of Information and Disability Discrimination Acts;
- On behalf of the Chairman of the Board of Trustees, Job Evaluation arrangements; and
- In conjunction with colleagues in Human Resources, the numbers and nature of administrative support in NML.

In line with its primary objective of providing a positive assurance to the Accounting Officer, Internal Audit also carried out reviews and activities associated with:

- The adequacy and effectiveness of financial control – also in support of the NAO's annual audit of NML's final account;
- The ongoing monitoring and advice on the final stages of the NML "Into the Future" project; and
- An assessment of the state of implementation of NML's risk based management approach.

NML does not have a **Risk Committee** as such but the Directors, the Heads of Finance and Human Resources and the Museum Secretary perform this function. During the course of the year the ET met to develop further and revise the current corporate risk register and introduce a strategy for application by managers across the institution.

During the year, NML retained external consultants to review important issues where internal expertise associated with NML's programme of capital projects was insufficient or not available. Consultancy provided included the following projects:

- Museum of Liverpool;
- Centre for the Understanding of Transatlantic Slavery; and
- Venue development at NML's other Museums and Gallery sites.

6 Significant internal control problems

There are no significant internal control issues that require further or additional action beyond that already outlined in the previous sections of this Statement of Internal Control.

DR DAVID FLEMING OBE
Director and Accounting Officer
National Museums & Galleries on Merseyside
Date: 30 January 2006

MR LOYD GROSSMAN OBE
Chairman of Trustees
Date: 30 January 2006

Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I have audited the financial statements on pages 23 to 48 under the Merseyside Museums and Galleries Order 1986. These financial statements have been prepared in the form directed by the Secretary of State for Culture, Media and Sport and approved by the Treasury; they 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 28 to 30.

Respective responsibilities of the Board of Trustees, the Accounting Officer and the Auditor

As described on page 16 the Board of Trustees and the Director of the National Museums and Galleries on Merseyside, as Accounting Officer, are responsible for the preparation of financial statements and for ensuring the regularity of financial transactions funded via Parliament. The Board of Trustees and the Director are also responsible for the preparation of other contents of the Annual Report and Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Merseyside Museums and Galleries Order 1986 and the directions made by the Secretary of State thereunder, and whether in all material respects the expenditure, income and resources funded via Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the other contents of the Foreword are not consistent with the financial statements, if the National Museums and Galleries on Merseyside have not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 17 to 20 reflects the National Museums and Galleries on Merseyside's compliance with Treasury's guidance 'Corporate governance: Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Statement on Internal Control covers all risks and controls. I am not required to form an opinion on the effectiveness of the National Museums and Galleries on Merseyside's corporate governance procedures or its risk and control procedures.

Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Trustees and the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the National Museums and Galleries on Merseyside'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 are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Audit Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of National Museums and Galleries on Merseyside at 31 March 2005 and of the incoming resources and application of resources and cash flows of the group, for the year then ended and have been properly prepared in accordance with the Merseyside Museums and Galleries Order 1986 and directions made thereunder by the Secretary of State for Culture, Media and Sport; and

- in all material respects the expenditure and income and resources funded via Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

6 February 2006

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Consolidated Statement of Financial Activities

For the year ended 31 March 2005

| | Notes | Unrestricted funds £000 | Restricted funds £000 | Total 2005 £000 | Total 2004 £000 |
|---|-------|-------------------------------|-----------------------------|--------------------------------|-----------------------|
| Incoming resources | | | | | |
| Grant-in-aid | 2 | 17,333 | 0 | 17,333 | 17,332 |
| Other grants and donations | | 26 | 8,362 | 8,388 | 3,369 |
| Gifts in kind | 6 | 0 | 1,594 | 1,594 | 230 |
| Activities to generate funds: | | | | | |
| Activities of charity staff | | 1,000 | 0 | 1,000 | 960 |
| Merchandising income of subsidiary company | 9 | 1,698 | 0 | 1,698 | 1,652 |
| Investment Income | 7 | 193 | 39 | 232 | 204 |
| Total incoming resources | | <u>20,250</u> | <u>9,995</u> | <u>30,245</u> | <u>23,747</u> |
| Resources expended | | | | | |
| Costs of activities in furtherance of the objects of the charity: | | | | | |
| Collection purchases | | 0 | 0 | 0 | 11 |
| Operating expenditure | | 17,713 | 2,500 | 20,213 | 19,109 |
| Grants to Third Parties | | 240 | 0 | 240 | 218 |
| Management and administration | | 191 | 0 | 191 | 149 |
| Activities to generate funds: | | | | | |
| Activities of charity staff | | 490 | 0 | 490 | 456 |
| Costs of subsidiary company merchandising | 9 | 1,808 | 0 | 1,808 | 1,693 |
| Fundraising costs | | 301 | 0 | 301 | 259 |
| Total resources expended | 4 | <u>20,743</u> | <u>2,500</u> | <u>23,243</u> | <u>21,895</u> |
| Net incoming resources before notional costs and transfers between funds | | | | | |
| | 3 | -493 | 7,495 | 7,002 | 1,852 |
| Notional cost of capital | 1(j) | -3,463 | -129 | -3,592 | -3,334 |
| Transfers between funds | | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Net (outgoing)/incoming resources after notional costs and transfers between funds | | | | | |
| | | -3,956 | 7,366 | 3,410 | -1,482 |
| Reversal of notional cost of capital | | 3,463 | 129 | 3,592 | 3,334 |
| Net incoming resources | | -493 | 7,495 | 7,002 | 1,852 |
| Movement on investment assets: | | | | | |
| Revaluation of tangible fixed assets | 6 | <u>7,245</u> | <u>3,763</u> | <u>11,008</u> | <u>7,928</u> |
| Net movement in funds | | <u>6,752</u> | <u>11,258</u> | <u>18,010</u> | <u>9,780</u> |
| Fund balances brought forward at 1 April | | <u>95,577</u> | <u>55,251</u> | <u>150,828</u> | <u>141,048</u> |
| Fund balances carried forward at 31 March | 13 | <u>102,329</u> | <u>66,509</u> | <u>168,838</u> | <u>150,828</u> |

All of NML's operations relate to continuing activities. There are no recognised gains and losses other than those shown above.

The notes on pages 28 to 47 form part of these accounts.

Consolidated Summary Income and Expenditure Account Unrestricted Free Income Funds for the year ended 31 March 2005

| | 2005 £000 | 2004 £000 |
|--|---------------|---------------|
| Incoming resources | | |
| Grant-in-aid | 16,876 | 16,163 |
| Other Grants and Donations | 26 | 31 |
| <i>Activities to generate funds:</i> | | |
| Activities of charity staff | 1,000 | 960 |
| Merchandising Income of subsidiary company | 1,698 | 1,652 |
| Investment Income | 193 | 178 |
| Total incoming resources | 19,793 | 18,984 |
| Resources expended | | |
| Costs of activities in furtherance of the objects of the charity: | | |
| Collection purchases | 0 | 11 |
| Operating expenditure (excluding depreciation) | 15,492 | 14,679 |
| Grants to Third Parties | 240 | 218 |
| Management and administration | 191 | 149 |
| <i>Activities to generate funds:</i> | | |
| Activities of charity staff | 490 | 456 |
| Costs of subsidiary company merchandising | 1,808 | 1,693 |
| Fundraising costs | 301 | 259 |
| Total resources expended | 18,522 | 17,465 |
| Surplus on free income funds before transfers between funds | 1,271 | 1,519 |
| Transfers to designated funds | -694 | -442 |
| Surplus/(Deficit) on free income funds for the year | 577 | 1,077 |
| Balance brought forward at 1 April | 3,675 | 2,598 |
| Balance carried forward at 31 March | 4,252 | 3,675 |
| The balance on free income funds comprised: | 2005 | 2004 |
| | £000 | £000 |
| Collection purchase fund | 253 | 109 |
| C & E admissions | 101 | 91 |
| Academic Publications | 114 | 105 |
| General funds | 3,784 | 3,370 |
| Balance at 31 March | 4,252 | 3,675 |

The notes on pages 28 to 47 form part of these accounts.

Consolidated Balance Sheet

As at 31 March 2005

| | Notes | 2005 £000 | 2004 £000 |
|---|-------|-----------------------|----------------|
| Fixed Assets | | | |
| Tangible Assets | 6 | <u>161,700</u> | <u>144,576</u> |
| Current Assets: | | | |
| Stock – goods for re-sale | | 222 | 250 |
| Debtors | 10 | 4,467 | 2,924 |
| Cash at bank and in hand | 18 | <u>6,265</u> | <u>6,073</u> |
| | | 10,954 | 9,247 |
| Creditors: amounts falling due within one year | 11 | <u>-3,816</u> | <u>-2,995</u> |
| Net current assets | | <u>7,138</u> | <u>6,252</u> |
| Net assets | | <u>168,838</u> | <u>150,828</u> |
| Represented by: | | | |
| Income funds | | | |
| Restricted funds | 13 | 66,509 | 55,251 |
| Unrestricted funds: | | | |
| Designated funds | 13 | 98,545 | 92,207 |
| General funds | 13 | <u>3,784</u> | <u>3,370</u> |
| Total funds | | <u>168,838</u> | <u>150,828</u> |

The notes on pages 28 to 47 form part of these accounts.

DR DAVID FLEMING OBE
Director and Accounting Officer
National Museums & Galleries on Merseyside
Date: 30 January 2006

MR LOYD GROSSMAN OBE
Chairman of Trustees
Date: 30 January 2006

Museum Balance Sheet

As at 31 March 2005

| | Notes | 2005 £000 | 2004 £000 |
|---|-------|----------------|----------------|
| Fixed Assets | | | |
| Tangible assets | 6 | 161,580 | 144,461 |
| Investment in NMGM Enterprises Limited | 9 | 380 | 290 |
| | | <u>161,960</u> | <u>144,751</u> |
| Current assets: | | | |
| Stock – goods for re-sale | | 24 | 26 |
| Debtors | 10 | 4,563 | 2,985 |
| Cash at bank and in hand | | 5,931 | 5,806 |
| | | <u>10,518</u> | <u>8,817</u> |
| Creditors: amounts falling due within one year | 11 | <u>-3,659</u> | <u>-2,764</u> |
| Net current assets | | <u>6,859</u> | <u>6,053</u> |
| Net assets | | <u>168,819</u> | <u>150,804</u> |
| Represented by: | | | |
| Income funds | | | |
| Restricted funds | | 66,509 | 55,251 |
| Unrestricted funds: | | | |
| Designated funds | | 98,545 | 92,207 |
| General funds | | 3,765 | 3,346 |
| | | <u>168,819</u> | <u>150,804</u> |
| Total funds | | <u>168,819</u> | <u>150,804</u> |

The notes on pages 28 to 47 form part of these accounts.

DR DAVID FLEMING OBE
Director and Accounting Officer
National Museums & Galleries on Merseyside
Date: 30 January 2006

MR LOYD GROSSMAN OBE
Chairman of Trustees
Date: 30 January 2006

Consolidated Cash Flow Statement

For the year ended 31 March 2005

| | Notes | 2005 £000 | 2004 £000 |
|---|-------|----------------------------|---------------|
| Net cash inflow from operating activities | 18 | 7,487 | 6,503 |
| Returns on investments and servicing of finance: | | | |
| Interest received | | 232 | 204 |
| Investing Activities: | | | |
| Capital expenditure and financial investments: | | | |
| Purchase of tangible assets adjusted for capital accruals | | <u>-7,527</u> | <u>-4,423</u> |
| Increase/(decrease) in cash in the year | | <u>192</u> | <u>2,284</u> |

The notes on pages 28 to 47 form part of these accounts.

Notes forming part of the financial statements for the year ended 31 March 2005

1 Accounting Policies

a) *Basis of accounting*

The financial statements have been prepared in a form directed by the Secretary of State with the consent of the Treasury in accordance with Sections 8(1) and 8(8) of the Schedule to the Merseyside Museums and Galleries Order 1986 and in accordance with:

- a. Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance;
- b. other guidance which Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
- c. any other specific disclosures required by the Secretary of State; and
- d. the provisions of the Charities SORP 2000.

The financial statements are prepared under the historical cost convention as modified by the revaluation of land and buildings. They have also been prepared in accordance with applicable accounting standards and generally accepted accounting practice in the United Kingdom.

Consolidated financial statements have been prepared for NML and its subsidiary company NMGM Enterprises Limited. In addition a separate balance sheet has been prepared for NML alone.

The income and expenditure lines of the Profit & Loss account of the subsidiary trading company are taken to the consolidated Statement of Financial Activities (SOFA). The SOFA, adjusted for intra group transactions, and the Balance Sheets of NML and NMGM are consolidated on a line-by-line basis.

A number of funds which predate NMGM's existence, which share a commonality of Trusteeship, have not been consolidated but are declared in full, as a note to the account (note 20).

b) *Incoming resources*

Grant-in-Aid from the Department for Culture, Media and Sport is taken to the Statement of Financial Activities in the year in which it is receivable.

Lottery income is recognised as and when the conditions for its receipt have been met.

All other income is accounted for on a receivable basis.

Incoming resources of a similar nature are grouped together in line with SORP 2000.

c) *Expenditure*

Resources expended of a similar nature are also grouped together in line with SORP 2000.

d) *Collection purchases*

Until the 31 March 2001 NML's collections have not been capitalised in the balance sheet since they were considered to be inalienable. The costs of additions to the collections were written off in the year of acquisition.

Additions to the collection acquired since 1 April 2001 are capitalised and recognised in the Balance Sheet, at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable and reliable. Such items are not depreciated or revalued as a matter of routine.

Donated assets are valued by internal experts within the museum at an estimate of fair market value. Items allocated by HM Treasury under the in lieu of inheritance tax scheme are included in the accounts at their current valuation.

e) *Fund accounting*

General funds are available for use at the discretion of the Trustees in furtherance of the general objectives of NML.

Accounting Policies (cont'd)

Designated funds comprise funds which have been set aside at the discretion of the Trustees for specific purposes.

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

f) *Tangible fixed assets*

Tangible fixed assets are stated at cost or valuation. Depreciation is provided on all tangible assets, except land and heritage assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

| | |
|--------------------------|---|
| Freehold buildings | 50 years |
| Long leasehold buildings | over the lease term up to a maximum of 50 years |
| Furniture and fittings | 4 years (museum) 8 years (subsidiary) |
| Motor vehicles | 4 years |

The capitalisation threshold for all categories of depreciated fixed assets is "greater than" £2,000 (subsidiary £500).

The threshold for capitalisation of gifts in kind is £500.

Assets in the course of construction are stated at cost in tangible fixed assets, but are not depreciated until the asset becomes operational. The asset will then become subject to subsequent valuations and the appropriate depreciation schedule.

Land and buildings are professionally revalued every five years. The last external valuation of all NML's land and buildings was undertaken as at 1 April 2002. In the years between professional valuations, indices are used to adjust the net book value of the buildings. In the absence of a suitable index for land values, the land was professionally revalued in 2004-05.

Within the subsidiary trading company, the depreciation policy and financial threshold for asset recognition is different to that of NML and therefore there is an inconsistency within the Group. This is not material within the context of these statements.

g) *Stock*

Stock is valued at the lower of cost and net realisable value and comprises goods for resale.

h) *Leases*

Costs in relation to operating leases are charged to the Statement of Financial Activities over the life of the lease.

i) *Pensions*

NML's staff are employed on terms, conditions and rates of pay determined by the Trustees. Staff meeting the eligibility requirements are entitled to membership of the Principal Civil Service Pension Scheme (PCSPS) and the conditions of the Superannuation Acts, 1965 and 1972 apply.

The Museum recognises the expected costs of these elements on a systematic and rational basis over the period during which benefits from employees' services by payments to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the scheme, the Museum recognises the contribution payable for the year.

The subsidiary trading company operates a defined contribution scheme. The cost of the scheme to the company is limited to the employer's contributions payable.

j) *Notional costs*

In accordance with Treasury guidance, notional costs of capital are charged in the Statement of Financial Activities in arriving at a net incoming/(outgoing) resources figure. These are reversed so that no provision is included on the balance sheet.

Accounting Policies *(cont'd)*

The notional cost of capital is 3.5% of average net assets (2003/04: 3.5%) calculated in accordance with advice issued by HM Treasury. The net values associated with assets funded by donations and by lottery grants are excluded from the notional charge as are the capitalised values of additions to the collections.

k) Taxation

NMGM is an exempt charity by virtue of schedule 2 to the Charities Act 1993 and is exempt from Corporation Tax under Section 505 of the Income and Corporation Taxes Act 1988. The profits of the trading company are passed annually to the charity in such a way that any charge to tax is avoided.

By virtue of section 33A of the Value Added Tax Act 1994 NMGM receives refunds of VAT incurred on the purchase of goods and services, or on the acquisition or importation of goods used in connection with the free right of admission to the public. Ordinarily this VAT cannot be recovered because it is attributable to the non-business activity of free admission.

2 Grant-in-Aid

£17,333,000 of "Grant-in-Aid" has been received during the year (2004: £17,332,000). This money is available for running costs, capital improvements and collection purchases.

| During the year Grant-in-aid was allocated to: | 2005 | 2004 |
|--|----------------------|---------------|
| | £000 | £000 |
| General Fund | 16,733 | 16,132 |
| Collection purchase fund | 200 | 150 |
| Deferred Government Grant Capital Allocation | 400 | 1,050 |
| | <u>17,333</u> | <u>17,332</u> |

Payment of Grant-in-Aid is made by the Department for Culture, Media and Sport from the DCMS Resource Account for 2004/05 (Request for Resources 1) which is audited and published separately.

NML also receives Grant-in-Aid from the Customs & Excise resource account. The amount received in 2004/05 was £323,000. A summary can be seen in Note 15.

3 Net Incoming Resources

| | 2005 | 2004 |
|---|-------------------|------------|
| | £000 | £000 |
| Net incoming resources before transfers is stated after charging for: | | |
| Travel and Subsistence (including Trustees) | 145 | 133 |
| Hospitality | 85 | 62 |
| Operating lease payments | 35 | 45 |
| NAO Audit Fee | 36 | 35 |
| Trading Company Audit Fee | 6 | 6 |
| | <u>307</u> | <u>281</u> |

4 Total resources expended

| | Staff Costs £000 | Other Costs £000 | Depre- ciation £000 | 2005 Total £000 | 2004 Total £000 |
|---|------------------------|------------------------|---------------------------|--------------------------------|-----------------------|
| Costs of activities in furtherance of the objects of the charity: | | | | | |
| Collection purchases | 0 | 0 | 0 | 0 | 11 |
| Operating expenditure | 11,037 | 5,431 | 3,745 | 20,213 | 19,109 |
| Grants to Third Parties | 0 | 240 | 0 | 240 | 218 |
| Management and administration costs | 110 | 81 | 0 | 191 | 149 |
| Activities to generate funds: | | | | | |
| Activities of charity staff | 332 | 158 | 0 | 490 | 456 |
| Costs of subsidiary company merchandising | 951 | 816 | 41 | 1,808 | 1,693 |
| Fundraising costs | 222 | 79 | 0 | 301 | 259 |
| Total Resources | 12,652 | 6,805 | 3,786 | 23,243 | 21,895 |

Management and administration costs includes: audit fees, internal audit costs, legal fees and finance staff costs directly attributable to the closure of the financial account.

5 Staff Costs

During the year staff costs directly associated with the delivery of NML's Lottery Funded project NMGM ITF, and incremental to the normal operating staff cost base, were capitalised. The amount for the year was £197,885 and the following note has been expanded to reflect the capitalisation.

| | NML £000 | NMGM Enterprises £000 | Total 2005 £000 | Total 2004 £000 |
|---|---------------|-----------------------------|--------------------------------|-----------------------|
| Wages and salaries | 9,662 | 892 | 10,554 | 10,021 |
| Social Security Costs | 656 | 49 | 705 | 639 |
| Pension Costs | 1,383 | 10 | 1,393 | 1,186 |
| Staff Costs within operating expenditure | 11,701 | 951 | 12,652 | 11,846 |
| Capitalised Staff Costs | 198 | 0 | 198 | 146 |
| Total Staff Costs | 11,899 | 951 | 12,850 | 11,992 |

The capitalised staff costs includes; Basic Pay £155,340, Employers NIC £15,831 and Employers Superannuation £26,714.

The PCSPS is an unfunded multi-employer defined benefit scheme but NML is unable to identify its share of the underlying liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the **Cabinet Office**: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05, employers' contributions of £1,216,501 were payable to the PCSPS (2003-04: £1,174,383) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2005-06 the salary bands will be revised and the rates will be in a range between 16.2% and 24.6%. The contribution rates reflect benefits as they accrue, not the costs as they are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £3,922 were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer **partnership** contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions of up to 3 per cent of pensionable pay. In addition, employer contributions of £440.81, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the **partnership** pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

5 Staff (cont'd)

Four employees retired early on **ill-health** grounds; the total additional accrued pension liabilities in the year amounted to £3,468.

The subsidiary trading company operates a defined contribution scheme. The cost of the scheme to the company is limited to the employer's contributions payable. In 2004-2005 the employer's contribution was 5% of basic salary for all members plus 1.5% of basic earnings above the lower earnings limit for those members who have contracted out of SERPS. The pension cost to the employer amounted to £9,740 in the year (2003/04: £9,650).

NML has identified a need to adjust the pension record of a small number of staff who, in the past, were affected by decisions regarding their fixed term employment and rights to PCS membership.

A provision has been made within the year of £186,000 in order to address this issue.

The average number of employees analysed by division was:

| Employee Configuration as at 31 March 2005 | | Employee configuration as at 31 March 2004 | |
|---|------------|---|--------------------------|
| | 2005 | | Restated 2004 |
| Director's Office | 6 | Director's Office | 4 |
| Museum Secretary's Office | 4 | Museum Secretary's Office | 3 |
| Development and Communication | 123 | Development and Communication | 110 |
| Public Services | 306 | Public Services | 321 |
| Human Resources | 15 | Human Resources | 15 |
| Finance, ICT & Procurement | 45 | Finance, ICT & Procurement | 45 |
| Cleaning Services | 39 | Cleaning Services | 35 |
| NMGM Enterprises | 65 | NMGM Enterprises | 68 |
| | 603 | | 601 |

The average number of employees analysed by category of staff was:

| Employee Configuration as at 31 March 2005 | | Employee Configuration as at 31 March 2004 | |
|---|------------|---|------------|
| NML | | NML | |
| Senior Management Team | 12 | Senior Management Team | 15 |
| Staff on permanent contract | 524 | Staff on permanent contract | 533 |
| Staff on secondment | 0 | Staff on secondment | 4 |
| Staff on fixed term contracts | 67 | Staff on fixed term contracts | 49 |
| Total | 603 | Total | 601 |

Trustees

The Trustees neither received nor waived any emoluments during the year. Payments to reimburse Trustees' travel and subsistence costs associated with the attendance of meetings amounted to £10,864 (2004: £14,779).

There are three Directorships within NML, these are:-

The Director and Accounting Officer

The Director of Public Services, and

The Director of Development & Communications.

5 Staff (cont'd)

The salary, pension entitlements and the value of any taxable benefits in kind of the Directors of the National Museums Liverpool were as follows:

| | 2004-05 | | 2003-04 | |
|--|--|---------------------------------------|--|---------------------------------------|
| | Salary including performance pay £k 85-90 plus non consolidated bonus 5-10 | Benefits in kind (to nearest £100) | Salary including performance pay £k 80-85 plus non consolidated bonus 5-10 | Benefits in kind (to nearest £100) |
| D Fleming Director | | 0 | | 0 |
| S Granville Director of Public Services | 55-60 | 0 | 55-60 | 0 |
| A de Joia Director of Development & Communications | 55-60 | 0 | 55-60 | 0 |

Below the Directors are a series of teams which meet to discuss a range of management issues on a regular basis, these teams, in descending order of seniority are:

The Executive Team
The Senior Management Team, and
The Strategy Forum.

The Executive Team consists of the three directors plus the Museum Secretary, the Head of Human Resources and the Head of Finance.

The Senior Management Team consists of the Executive Team plus a number of Divisional / Operational Heads.

The Strategy Forum is the largest managerial grouping and consists of the Senior Management Team plus managers from all disciplines across the museums.

| | Accrued pension at age 60 as at 31/03/05 and related lump sum (£k) | Real increase in pension and related lump sum at age 60 (£k) | CETV ¹ at 31/03/05 (nearest £k) | CETV at 31/03/04 (nearest £k) | Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £k) | Employer contribution to partnership pension account including risk benefit cover – to nearest £100 |
|--|--|--|--|-------------------------------|--|--|
| D Fleming Director | 2.5 – 5 plus lump sum of 10 – 12.5 | 0 – 2.5 plus lump sum of 2.5 – 5 | 57 | 38 | 15 | 0 |
| S Granville Director of Public Services | 0 – 2.5 plus lump sum of 5 – 7.5 | 0 – 2.5 plus lump sum of 0 – 2.5 | 23 | 13 | 9 | 0 |
| A de Joia Director of Development & Communications | 10 – 12.5 plus lump sum of 32.5 – 35 | 0 – 2.5 plus lump sum of 0 – 2.5 | 138 | 121 | 9 | 0 |

¹ CETV – A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

5 Staff (cont'd)

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Pension

Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits 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 the disclosure applies. The CETV figures, and the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to 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.

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

Director's Emoluments

Dr David Fleming's service with NML commenced on 1st October 2001 and he is employed under a 5 year fixed term contract.

In addition to salary Dr Fleming can benefit from a performance related bonus of up to 15% of consolidated pay. Of this bonus an amount equivalent to the average pay award for NML staff may be consolidated annually, the remaining entitlement being paid but not consolidated. Dr Fleming was paid a bonus payment in respect of performance for 2004/05.

Details of the Director's business interests are set out below:

NML's Director, Dr David Fleming OBE, was a board member of the Mersey Tourism Board, St George's Hall, and the Bluecoat Arts Centre. He is a member of the North West Cultural Consortium, of the Steering Group for Liverpool's World Heritage Site, of the Executive Committee of the National Museums Directors' Conference and is President of the International Committee on Museum Management and Leadership.

6 Tangible fixed assets

| | Land | Buildings | Furniture & Fittings | Motor Vehicles | Assets in Course of Construction | Additions to the Collections | Total |
|---|---------------|----------------|-------------------------|-------------------|--|------------------------------------|----------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost/valuation | | | | | | | |
| Valuation Base at | | | | | | | |
| 1-Apr-04 | 12,411 | 126,272 | 10,689 | 77 | 5,023 | 4,861 | 159,333 |
| Transfers from AICC | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions in Year | 0 | 657 | 685 | 7 | 6,845 | 1,708 | 9,902 |
| Disposals | 0 | 0 | -33 | 0 | 0 | 0 | -33 |
| Indexed Revaluation | 704 | 10,304 | 0 | 0 | 0 | 0 | 11,008 |
| Closing Gross Current Replacement cost | 13,115 | 137,233 | 11,341 | 84 | 11,868 | 6,569 | 180,210 |
| Depreciation | | | | | | | |
| Balance as at | | | | | | | |
| 1-Apr-04 | 0 | 5,016 | 9,670 | 71 | 0 | 0 | 14,757 |
| Base Charge for Year | 0 | 3,154 | 627 | 5 | 0 | 0 | 3,786 |
| Disposals | 0 | 0 | -33 | 0 | 0 | 0 | -33 |
| Balance as at | | | | | | | |
| 31-Mar-05 | 0 | 8,170 | 10,264 | 76 | 0 | 0 | 18,510 |
| Net book value: | | | | | | | |
| At 31 March 2005 | 13,115 | 129,063 | 1,077 | 8 | 11,868 | 6,569 | 161,700 |
| At 31 March 2004 | 12,411 | 121,256 | 1,019 | 6 | 5,023 | 4,861 | 144,576 |

The total figure of £161,700 is comprised as follows

| | |
|-----------------|-----------|
| Museum | £ 161,580 |
| Trading Company | £ 120 |

The Trading Company is comprised solely of fixtures and fittings.

Additions to the Collections

Additions to the collections included acquisitions via the collection purchase fund and Gifts in Kind. The major additions for the year 2004-05 were:

| | £ |
|--|-----------|
| Collection Purchase Fund | |
| Clarice Cliff "Tea for Two" tea set | 7,000 |
| John Moores 23 first prize winner Alexis Harding painting "Slump / Fear" | 6,400 |
| John Moores 23 Jason Brooks painting "Cortina" | 7,600 |
| Richard Hornby deck watch in silver case hallmarked 1825-26 | 4,750 |
| Two Bird Monster Masks by Stephen Bruce and Don Svanvik | 5,000 |
| Captain Crowe watercolour portrait by A R Burt 1820 | 11,000 |
| Vera Gordon herbarium collection dating from 1940-2000 | 11,868 |
| Gifts in Kind | |
| Sir J E Millais painting "Cymon and Iphigenia" | 1,500,000 |
| David Hockney print "The Sexton Disguised as a Ghost Stood Still as Stone" | 3,000 |

Collection Acquisitions

Additions to the collection acquired since 1 April 2001 are capitalised and recognised in the Balance Sheet, at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable and reliable. Such items are not depreciated or revalued as a matter of routine.

6 Tangible fixed assets (cont'd)**Gifts in Kind**

Gifts in kind are recognised in the account as ownership passes from the donor to NML and are valued either by NML staff or, where a relationship with a taxation agreement exists, by reference to a Capital Taxes Office valuation.

The threshold for capitalisation of gifts in kind is £500.

Net Book Value of Land and Buildings

The net book value of land and buildings comprises:

| | |
|--------------------------|----------------|
| | £000 |
| Land | 13,115 |
| Freehold Buildings | 92,978 |
| Long Leasehold Buildings | 36,085 |
| | <u>142,178</u> |

Net Book Value of Land and Buildings

NML has operated a revaluation policy in relation to its land and buildings since its formation in 1986. The last full revaluation of the land and buildings was carried out at the 1 April 2002 by Drivers Jonas, Chartered Surveyors in accordance with the RICS "Appraisal and Valuation" Manual using Depreciated Replacement Cost (DRC) conventions, Existing Use Value (EUV) or Open Market Value (OMV) as appropriate.

| Property | Basis of 2002 Valuation |
|----------------------------------|--------------------------------|
| Freehold Properties | |
| Lady Lever Art Gallery | DRC |
| County Sessions House | DRC |
| The Walker | DRC |
| Liverpool Museum | DRC |
| Sudley House | DRC |
| Maritime Park | DRC |
| Juniper Street | EUV |
| Maritime Car Park | OMV |
| Dale Street | EUV |
| Long Leasehold Properties | |
| Oratory | DRC |
| Maritime 'D' Block | DRC |
| Maritime Piermaster's House | DRC |
| The Walker | DRC |
| Conservation Centre | EUV |
| Dale Street | DRC |

Drivers Jonas carried out a valuation of the Liverpool Museum and the Walker Art Gallery in 2002/03 following the transfer of the assets in the course of construction.

In 2004/05 Drivers Jonas undertook a valuation of NML's land values and these valuations are reflected in this note. Buildings were revalued at the end of the financial year using indices provided by the DCMS from the DTI "Quarterly Building Price and Cost Indices".

6 Tangible fixed assets (cont'd)

The net book value for each property as at the 31 March 2005 is shown below:-

| Property | Valuation of Land as at 1-Apr-04 £ | Valuation of Buildings as at 1-Apr-04 £ | Land Revaluation Move £ | Additions to Buildings 2004/05 £ | MHCA Adjustment to Buildings £ | Total Depreciation at 31-Mar-05 £ | Net Book Value of Land at 31-Mar-05 £ | Net Book Value of Buildings at 31-Mar-05 £ |
|-----------------------------|---------------------------------------|--|----------------------------|-------------------------------------|-----------------------------------|--------------------------------------|--|---|
| Freehold | | | | | | | | |
| Lady Lever Art Gallery | 69,800 | 5,874,302 | 200 | 8,842 | 479,343 | 381,395 | 70,000 | 5,981,092 |
| County Sessions House | 195,000 | 1,094,739 | 49,000 | 0 | 89,331 | 71,045 | 244,000 | 1,113,025 |
| The Walker | 1,404,040 | 16,048,918 | 233,960 | 267,090 | 1,309,592 | 1,035,704 | 1,638,000 | 16,589,896 |
| Liverpool Museum | 1,708,500 | 56,196,078 | 284,500 | 165,414 | 4,585,600 | 3,638,719 | 1,993,000 | 57,308,373 |
| Sudley House | 121,500 | 859,768 | 500 | 30,405 | 70,157 | 55,546 | 122,000 | 904,784 |
| Maritime Park | 2,667,500 | 5,212,006 | 500 | 11,513 | 425,300 | 329,999 | 2,668,000 | 5,318,820 |
| Juniper Street | 0 | 3,526,047 | 0 | 0 | 287,725 | 228,826 | 0 | 3,584,946 |
| Maritime Car Park | 4,500,000 | 0 | 0 | 0 | 0 | 0 | 4,500,000 | 0 |
| Dale Street | 0 | 2,075,757 | 0 | 62,787 | 169,382 | 131,064 | 0 | 2,176,862 |
| Total Freehold | 10,666,340 | 90,887,615 | 568,660 | 546,051 | 7,416,430 | 5,872,298 | 11,235,000 | 92,977,798 |
| Leasehold | | | | | | | | |
| Oratory | 39,000 | 31,984 | 0 | 0 | 2,610 | 2,075 | 39,000 | 32,519 |
| Maritime "D" Block | 771,000 | 22,016,438 | 0 | 109,359 | 1,796,541 | 1,430,965 | 771,000 | 22,491,373 |
| Maritime Piermaster's House | 128,000 | 545,617 | 0 | 467 | 44,522 | 34,435 | 128,000 | 556,171 |
| The Walker | 13,460 | 709,131 | 2,540 | 0 | 57,865 | 46,020 | 16,000 | 720,976 |
| Conservation Centre | 793,500 | 12,058,511 | 132,500 | 1,347 | 983,974 | 782,577 | 926,000 | 12,261,255 |
| Dale Street | 0 | 22,363 | 0 | 0 | 1,825 | 1,452 | 0 | 22,736 |
| Total Leasehold | 1,744,960 | 35,384,044 | 135,040 | 111,173 | 2,887,337 | 2,297,524 | 1,880,000 | 36,085,030 |
| Grand Totals | 12,411,300 | 126,271,659 | 703,700 | 657,224 | 10,303,767 | 8,169,822 | 13,115,000 | 129,062,828 |

Developments at Mann Island

On the 19 July 2004 the public sector associated with the 4th Grace project took the decision not to proceed with its development. During the year NML brought to close the small grant of £250,000 that had been awarded to facilitate the creation of a new Museum of Liverpool within the 4th Grace building having applied £143,000 of the grant to eligible costs within the year.

New Museum of Liverpool

In recognition of the importance of the development of the Mann Island site and the role that a new Museum of Liverpool could play in this, a grant of £4,000,000 was made to NML in order to develop the design concepts of the new museum and to produce a business plan. Consultants have been engaged in order to achieve this and £852,000 had been spent at the year end.

Merseytram

During the 2003/2004 NML was given notice by the Merseyside Passenger Transport Executive (MPTE) that it had made seven applications to the Secretary of State for Transport for compulsory powers to acquire or use NML land for the purpose of constructing Merseytram Line One.

These powers were subsequently granted by the Secretary of State, however, during 2004/2005 NML entered into a private agreement with the MPTE such that, if the scheme proceeds as envisaged, the impact of the compulsory purchase order upon NML will be limited to:-

- (1) one permanent land take at the Mann Island site
- (2) one temporary disposal at the rear of the Walker Art Gallery
- (3) two permanent fixtures of MPTE equipment to World Museum Liverpool building site.

6 Tangible fixed assets (cont'd)

Disposals in year

There was £33,000 of furniture and fittings disposals for the subsidiary trading company. There were no disposals of land or buildings during the year. NML is carrying forward unapplied balances in respect of the disposals of the Blundell Street Warehouse (£215,393) and the Irwell Street Boatshed (£385,000). These cash balances form part of the asset representation of the Capital Reserve Fund.

Assets in the course of construction

Accumulated spend against NML's major lottery funded project, *NMGM ITF* is taken to an "assets in the course of construction" account until the asset is completed, at which time the associated cost is transferred to a depreciating asset base.

Accumulative expenditure on "assets in the course of construction" as at 31 March 2005, consisted of: –

| | |
|---|----------------------|
| | £000 |
| Purchase of the Mountford Building | 692 |
| Building Work at the Liverpool Museum | 21,124 |
| Building Work at the Walker Art Gallery | 3,655 |
| Fees on Building Work | 3,712 |
| Fees in respect of the Gallery Displays | 2,825 |
| Work on gallery displays and development of gallery displays: | 6,605 |
| Residual Building Work | 381 |
| Creation of new galleries at the Museum of Liverpool Life | 777 |
| Capitalised Staff Cost | 1,101 |
| Refurbishment of the Juniper Street Store | 1,553 |
| Decant and Transfer Costs | 1,481 |
| Spend on the Lottery Funded Project | <u>43,906</u> |
| Plus spend outside the project boundary: | |
| 17th Century Gallery | 589 |
| Base Build Completion | 1,013 |
| Understanding Slavery Gallery | 272 |
| Museum of Liverpool | 852 |
| Total accumulated AICC spend | <u>46,632</u> |
| Less transfers to depreciating asset base: | |
| to 31 March 2004 | 34,764 |
| transferred in year ending 31 March 2005 | 0 |
| | <u>34,764</u> |
| Assets in the course of construction as at 31 March 2005 | <u>11,868</u> |

The new facilities became operational on 29 April 2005.

7 Investment Income

All of the investment income derives from returns on fixed interest placement with National Westminster Bank plc:

| | | |
|---------------------|-------------------|------------|
| | 2005 | 2004 |
| | £000 | £000 |
| Interest receivable | <u>232</u> | <u>204</u> |

The interest received under these arrangements amounts to less than 1% of total incoming resources and under the terms of the placement any risk lies with the National Westminster Bank plc.

8 Financial Instruments

FRS 13 *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks which the Trustees of NML face in discharging their duties.

We have taken advantage of the exclusion permitted by FRS13 and not disclosed short-term debtors and creditors.

8 Financial Instruments (cont'd)

Liquidity Risks

In 2004-05, £17.3m (58%) of NML's income derived from Grant in Aid from the Department for Culture, Media and Sport. In addition GIA of £323k was received from HM Revenue and Customs. The remaining operating expenditure was therefore financed from self-generated income which tends to be volatile in nature. NML is therefore exposed to some liquidity risk, however, this risk is mitigated by the reserves policy.

Interest Rate Risks

As mentioned above, NML receives less than 1% of its income through returns on invested cash balances. It is therefore not exposed to any material risk in relation to fluctuating interest rates.

Foreign Exchange Risks

NML does not engage in market dealings in respect of foreign currencies and the Trustees are therefore not exposed to any foreign exchange risks.

9 Trading subsidiary

NML owns the whole of the issued share capital of NMGM Enterprises Limited (NMGM), a company registered in England and Wales. The company's principal activities consist of the provision of catering and retailing services to NML's visitors, together with the provision of conference facilities to a wider audience.

During the year NML increased its shareholding in NMGM by purchasing a further 90,000 £1 shares taking the cumulative investment to £380,000.

A summary of the results and net assets of NMGM is shown below.

| Results | Retail | Catering | Services & Conferencing | Total 2005 | Total 2004 |
|---|---------------|-----------------|--|-----------------------|-----------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Turnover | 605 | 1,041 | 412 | 2,058 | 2,000 |
| Cost of sales | -351 | -354 | 0 | -705 | -733 |
| Gross profit | 254 | 687 | 412 | 1,353 | 1,267 |
| Other expenses | -255 | -595 | -414 | -1,264 | -1,130 |
| Net profit | -1 | 92 | -2 | 89 | 137 |
| Amount gifted to NML to extinguish taxable profit | | | | -94 | -140 |
| Movement on Profit & Loss account | | | | -5 | -3 |

In order to avoid payment of corporation tax NMGM passes to NML an amount under a Gift Aid arrangement which extinguishes the taxable profit. This charge can be greater than the profit reported in the financial statements and results in matching movement in retained earnings.

Reconciliation of Trading Subsidiary results to Consolidated Statement of Financial Activities

| | 2005 £000 |
|--|----------------------|
| Turnover | 2,058 |
| Inter-company sales | -360 |
| | <u>1,698</u> |
| Cost of sales | -705 |
| Inter-company sales | 161 |
| Other expenses | -1,264 |
| Consolidated cost of sales And expenses | <u>-1,808</u> |

9 Trading subsidiary (cont'd)

| Balance Sheet | 2005 | 2004 |
|----------------------------|-------------|------|
| | £000 | £000 |
| Fixed assets | 120 | 115 |
| Current assets | 642 | 641 |
| Current liabilities | -363 | -442 |
| Net assets | 399 | 314 |
| Share capital and reserves | 399 | 314 |

The audit fee for the year amounted to £5,670 and this amount is included in the consolidated audit fee shown at note 3.

10 Debtors

| | 2005 | 2005 | 2004 | 2004 |
|-------------------------------|----------------|--------------|---------|-------|
| | Charity | Group | Charity | Group |
| | £000 | £000 | £000 | £000 |
| Amounts due from subsidiary | 250 | 0 | 279 | 0 |
| Trade debtors | 204 | 265 | 370 | 450 |
| Other debtors and prepayments | 3,413 | 3,506 | 1,798 | 1,936 |
| Taxation recoverable | 696 | 696 | 538 | 538 |
| | 4,563 | 4,467 | 2,985 | 2,924 |

11 Creditors: amounts falling due within one year

| | 2005 | 2005 | 2004 | 2004 |
|------------------------------|----------------|--------------|---------|-------|
| | Charity | Group | Charity | Group |
| | £000 | £000 | £000 | £000 |
| Amounts due to subsidiary | 44 | 0 | 67 | 0 |
| Trade creditors | 1,823 | 1,901 | 1,354 | 1,406 |
| Other creditors and accruals | 1,344 | 1,413 | 803 | 997 |
| Deferred income | 221 | 221 | 209 | 209 |
| Taxation and social security | 227 | 281 | 331 | 383 |
| | 3,659 | 3,816 | 2,764 | 2,995 |

12 Financial Commitments

At 31 March 2005 NML had annual commitments under non-cancellable leases as follows:

| | 2005 | 2005 | 2004 | 2004 |
|--------------------------------|-----------------------------|--------------|------------------|-------|
| | Land & Buildings | Other | Land & Buildings | Other |
| | £000 | £000 | £000 | £000 |
| Operating leases which expire: | | | | |
| Within one year: | 0 | 28 | 0 | 25 |
| In the second to fifth year | 0 | 0 | 0 | 14 |
| | 0 | 28 | 0 | 39 |

13 Statement of Funds

| | At 1 Apr-04 £000 | Income £000 | Expend- iture £000 | Revalua- tions £000 | Transfers £000 | At 31 Mar-05 £000 |
|---------------------------------|------------------------|----------------|--------------------------|---------------------------|-------------------|-------------------------|
| Unrestricted funds | | | | | | |
| Designated funds | | | | | | |
| Collection purchase fund (Free) | 109 | 144 | 0 | 0 | 0 | 253 |
| Collection purchase fund | 191 | 57 | 0 | 0 | 0 | 248 |
| C&E admissions (Free) | 91 | 0 | 0 | 0 | 10 | 101 |
| Academic Publications (Free) | 105 | 24 | -15 | 0 | 0 | 114 |
| Capital reserve | 64,977 | 0 | -1,377 | 5,085 | 0 | 68,685 |
| Deferred govt grant ITF | 502 | 0 | -13 | 42 | 0 | 531 |
| Deferred government grant | 19,508 | 400 | -469 | 1,658 | 0 | 21,097 |
| General capital | 2,086 | 0 | -252 | 151 | 694 | 2,679 |
| NMGM ITF | 4,638 | 0 | -110 | 309 | 0 | 4,837 |
| Total designated funds | 92,207 | 625 | -2,236 | 7,245 | 704 | 98,545 |
| General funds (Free) | 3,370 | 19,625 | -18,507 | 0 | -704 | 3,784 |
| Total unrestricted funds | 95,577 | 20,250 | -20,743 | 7,245 | 0 | 102,329 |
| Restricted funds | | | | | | |
| Collection purchase fund | 4,757 | 1,647 | 0 | 0 | 1 | 6,405 |
| Development fund | 17,585 | 2,061 | -1,559 | 1,362 | -159 | 19,290 |
| Lottery Lutyens | 4 | 30 | -30 | 0 | 0 | 4 |
| NMGM ITF – Lottery | 26,704 | 3,788 | -737 | 1,957 | 0 | 31,712 |
| NMGM ITF – ERDF | 3,585 | 0 | -93 | 305 | 0 | 3,797 |
| Development fund ITF | 2,616 | 0 | -81 | 139 | 158 | 2,832 |
| NWDA ITF | 0 | 1,552 | 0 | 0 | 0 | 1,552 |
| NWDA | 0 | 917 | 0 | 0 | 0 | 917 |
| Total restricted funds | 55,251 | 9,995 | -2,500 | 3,763 | 0 | 66,509 |
| Total funds | 150,828 | 30,245 | -23,243 | 11,008 | 0 | 168,838 |

Expanded Statement of Financial Activities (SuperSOFA)

At present the museum produces a Consolidated Statement of Financial Activities as well as a Consolidated Summary Income and Expenditure Account.

The Museum is working with the Department for Culture, Media and Sport and a number of leading museums and galleries, to devise a revised format for these primary statements. The aim is to produce one primary statement and also to provide a much clearer disclosure of operating results, free reserves and capital movements.

This note (see overleaf) shows the 2004/2005 result in the proposed draft format. It is provided here for information purposes only.

Note 13 reconciles to the Consolidated Statement of Financial Activities on page 23.

The significant transfers between funds during the year were £694,000 from the General Fund to the General Capital Fund (Fixed Asset Additions), £158,000 from the Development Fund to the Development Fund ITF (matching ITF spend).

Reserves Policy

The Trustees have established a policy whereby the unrestricted funds not committed or invested in tangible fixed assets ("the free reserves") should cover the estimated reserve requirement, based upon a risk assessment, over the period 2005/06 to 2008/09. The current risk and reserve requirement for this period is £3,360,000.

The free income reserve available at 31 March 2005 was £4,252,000. The Trustees consider that sufficient funds are held in an appropriate form to enable each fund to be applied in accordance with any restriction imposed.

National Museums and Galleries on Merseyside

| | Income & Expenditure Funds | | | | | | | | | | Capital Funds | | | | | | | | | | Total Funds | | | | |
|--|----------------------------|------------------------|----------------|---------------|---------------|--------------|---------------|----------------|-----------------|---------------|-----------------|---------------|---------------|-----------------|---------------|----------------|---------------|---------------|---------------|--------------|--------------|--------------------|------------------|----------------|----------------|
| | Unrestricted | | | | | Restricted | | | | | Unrestricted | | | | | Restricted | | | | | Unrestricted | Restricted | | | |
| | Coll.Purc. Fund | C & E Admiss. Publics. | Acad. Publics. | General Fund | Free Funds | Acad Pubs | Restrict Pubs | Lottery Lutyns | Coll.Purc. Fund | NMGM ITF | General capital | DGG ITF | DGG ITF | Capital Reserve | Coll.Pur Fund | Develop't Fund | Dev.Fnd ITF | Lottery ITF | ERDF ITF | NWDA ITF | NWDA CAP | Unrestricted 04-05 | Restricted 04-05 | Total 2004-05 | Total 2003-04 |
| Incoming Resources | | | | | | | | | | | | | | | | | | | | | | | | | |
| Grant in Aid | 0.143 | - | - | 16.733 | 16.876 | - | - | - | 0.057 | - | - | 0.400 | - | - | - | - | - | - | - | - | - | 17.333 | 0.000 | 17.333 | 17.332 |
| Other grants & donations | 0.001 | - | - | 0.025 | 0.026 | - | 2.022 | 0.030 | - | - | - | - | - | - | 0.053 | - | - | 3.788 | - | 1.552 | 0.917 | 0.026 | 8.362 | 8.388 | 3.369 |
| Legacies | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0.000 | 0.000 | 0.000 | 0.000 |
| Gifts in kind | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1.594 | - | - | - | - | - | - | 0.000 | 1.594 | 1.594 | 0.230 |
| Activities to Generate Funds:- | | | | | | | | | | | | | | | | | | | | | | | | | |
| Activities of Charity staff | - | - | 0.024 | - | 0.976 | 1.000 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1.000 | 0.000 | 1.000 | 0.960 |
| Merchandising income of subsidiary | - | - | - | 1.698 | 1.698 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1.698 | 0.000 | 1.652 | 1.652 |
| Investment income | - | - | - | 0.193 | 0.193 | - | 0.039 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0.193 | 0.039 | 0.232 | 0.204 |
| Total incoming resources | 0.144 | 0.000 | 0.024 | 19.625 | 19.793 | 0.000 | 2.061 | 0.030 | 0.057 | 0.000 | 0.400 | 0.400 | 0.000 | 0.000 | 1.647 | 0.000 | 0.000 | 3.788 | 0.000 | 1.552 | 0.917 | 20.250 | 9.995 | 30.245 | 23.747 |
| Resources expended | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of activities in furtherance of | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0.000 | 0.000 | 0.000 | 0.011 |
| Collection Purchases | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 15.492 | 0.976 | 16.468 | 15.898 |
| Operating Expenditure | - | 0.015 | - | 15.477 | 15.492 | - | 0.946 | 0.030 | - | - | - | - | - | - | - | - | - | - | - | - | - | 0.240 | 0.000 | 0.240 | 0.218 |
| Grants to 3rd Parties | - | - | - | 0.240 | 0.240 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0.191 | 0.000 | 0.191 | 0.149 |
| Management & administration | - | - | - | 0.191 | 0.191 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2.221 | 1.524 | 3.745 | 3.211 |
| Depreciation | - | - | - | - | - | - | - | - | - | 0.110 | 0.252 | 0.469 | 0.013 | 1.377 | - | 0.613 | 0.081 | 0.737 | 0.093 | - | - | 0.490 | 0.000 | 0.490 | 0.456 |
| Activities to generate funds | - | - | - | 0.490 | 0.490 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1.808 | 0.000 | 1.808 | 1.693 |
| Merchandising expenditure | - | - | - | 1.808 | 1.808 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0.301 | 0.000 | 0.301 | 0.259 |
| Fundraising costs | - | - | - | 0.301 | 0.301 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 20.743 | 2.500 | 23.243 | 21.895 |
| Total resources expended | 0.000 | 0.000 | 0.015 | 18.507 | 18.522 | 0.000 | 0.946 | 0.030 | 0.000 | 0.110 | 0.252 | 0.469 | 0.013 | 1.377 | 0.000 | 0.613 | 0.081 | 0.737 | 0.093 | 0.000 | 0.000 | -0.493 | 7.495 | 7.002 | 1.852 |
| Net incoming resources | 0.144 | 0.000 | 0.009 | 0.000 | 1.118 | 1.271 | 1.115 | 0.000 | 0.057 | -0.110 | -0.252 | -0.069 | -0.013 | -1.377 | 1.647 | -0.613 | -0.081 | 3.051 | -0.093 | 1.552 | 0.917 | -0.493 | 7.495 | 7.002 | 1.852 |
| Notional cost of capital | -0.006 | -0.003 | -0.004 | - | -0.125 | -0.138 | - | - | -0.008 | -0.166 | -0.083 | -0.711 | -0.018 | -2.339 | - | - | - | - | -0.129 | - | - | -3.463 | -0.129 | -3.592 | -3.334 |
| Transfers between funds | - | 0.010 | - | - | -0.704 | -0.694 | - | -0.671 | - | - | 0.694 | - | - | - | 0.001 | 0.512 | 0.158 | - | - | - | - | 0.000 | 0.000 | 0.000 | 0.000 |
| Net incoming resources after notional costs and transfers | 0.138 | 0.007 | 0.005 | 0.000 | 0.289 | 0.439 | 0.000 | 0.444 | 0.049 | -0.276 | 0.359 | -0.780 | -0.031 | -3.716 | 1.648 | -0.101 | 0.077 | 3.051 | -0.222 | 1.552 | 0.917 | -3.956 | 7.366 | 3.410 | -1.482 |
| Reversal of notional costs | 0.006 | 0.003 | 0.004 | 0.000 | 0.125 | 0.138 | - | - | 0.008 | 0.166 | 0.083 | 0.711 | 0.018 | 2.339 | - | - | - | - | 0.129 | - | - | 3.463 | 0.129 | 3.592 | 3.334 |
| Net incoming resources | 0.144 | 0.010 | 0.009 | 0.000 | 0.414 | 0.577 | 0.000 | 0.444 | 0.057 | -0.110 | 0.442 | -0.069 | -0.013 | -1.377 | 1.648 | -0.101 | 0.077 | 3.051 | -0.093 | 1.552 | 0.917 | -0.493 | 7.495 | 7.002 | 1.852 |
| Movement on investment assets: Revaluation of tangible fixed assets | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net movement in funds | - | - | - | - | - | - | - | - | - | 0.309 | 0.151 | 1.658 | 0.042 | 5.085 | 1.362 | 1.362 | 0.139 | 1.957 | 0.305 | - | 7.245 | 3.763 | 11.008 | 7.928 | |
| Fund balances brought forward | 0.144 | 0.010 | 0.009 | 0.000 | 0.414 | 0.577 | 0.000 | 0.444 | 0.057 | 0.199 | 0.593 | 1.589 | 0.029 | 3.708 | 1.648 | 1.261 | 0.216 | 5.008 | 0.212 | 1.552 | 0.917 | 6.752 | 11.258 | 18.010 | 9.780 |
| Fund balances carried forward | 0.253 | 0.101 | 0.114 | 0.000 | 3.784 | 4.252 | 0.000 | 1.776 | 0.248 | 4.837 | 2.679 | 21.097 | 0.531 | 68.685 | 6.405 | 17.514 | 2.832 | 31.712 | 3.797 | 1.552 | 0.917 | 102.329 | 66.509 | 168.838 | 150.828 |

The Capital Funds represent both Fixed Assets and Current Assets:

| | | | |
|----------------------|--------------|-----------------------------|----------------|
| NMGM ITF | 0.019 | Cash from Donations | 162.806 |
| General Capital | 0.003 | Cash from Disposals | |
| DGG | 0.405 | Cash from Grant in Aid | 1.226 |
| Capital Reserve | 0.715 | Cash including Disposals | |
| Collection Purchases | 0.084 | Restricted Cash | |
| | 1.226 | | |
| | | Capital Funds | |
| | | Less Current Assets | |
| | | Museum Balance Sheet | 161.580 |
| | | Fixed Assets | 1.226 |

13 Statement of Funds (cont'd)

The Corporate Plan (2004-2007) projections anticipated an increase in General Fund of £45,000 (–£814,000 after transfers to capital) for the year 2004/2005. The result for the year was £1,118,000; of which £704,000 was transferred to capital and designated funds. The remaining amount of £414,000 increased the general fund balance to £3,784,000.

A greater than expected contribution to running costs from grants and donations and deferred spend largely accounted for this variation.

Unrestricted Designated Funds:

Comprise funds which have been set aside at the discretion of the Trustees for specific purposes.

Revenue: Unrestricted

Within this group are;

| | |
|-----------------------------------|--|
| <i>Collection purchase fund</i> | for additions to the collections. |
| <i>C & E Admissions fund</i> | for the running costs and special projects associated with the HM Customs & Excise Museum. |
| <i>Academic Publications fund</i> | for the production of professional material. |
| <i>Miscellaneous</i> | for specific one-off revenue projects. |

The source of these funds is both government department grant-in-aid and earned income.

Capital Asset Funds: Unrestricted

Within this group are;

| | |
|--------------------------------------|--|
| <i>Capital reserve</i> | represents fixed assets transferred to NML. This came into being with the transfer of assets upon the abolition of Merseyside County Council. |
| <i>Deferred government grant</i> | for the purchase and development of fixed assets. The source of this fund is government department grant-in-aid. |
| <i>Deferred government grant ITF</i> | a fund with a finite life created to reflect the special grant-in-aid assistance provided by the DCMS to address the clearance of asbestos specific to the NMGM ITF project. |
| <i>General capital</i> | for the purchase and development of fixed assets. The source of this fund is earned income. |
| <i>NMGM ITF</i> | for the purchase and development of fixed assets specific to the NMGM ITF project. The source of this fund is transfers from the General fund. |

Unrestricted General Funds:

Comprise funds available for use of the Trustees in furtherance of the general objectives of NML.

Restricted Funds

Are funds subject to specific restriction imposed on them by donors or by the purpose of the appeal.

Revenue: Restricted

Within this group are;

| | |
|---------------------------------|---|
| <i>Collection purchase fund</i> | for additions to the collections. The source of this fund is charitable donations and investment income derived from unconsolidated separate trust funds. |
| <i>Development fund</i> | for the financing of running costs of projects, curatorial activities and the museums and galleries exhibitions programme. The source of the funds are grants and charitable donations. |
| <i>Lottery Lutyens fund</i> | for the restoration of Edwin Lutyens model of the Liverpool Catholic Cathedral. The source of this fund is the Heritage Lottery Fund. |

Capital Asset funds: Restricted

Within this group are;

| | |
|-------------------------|---|
| <i>NMGM ITF lottery</i> | for the purchase and development of fixed assets specific to the NMGM ITF project. The source of this fund is the Heritage Lottery Fund. |
| <i>NMGM ITF ERDF</i> | For the purchase and development of fixed assets specific to the NMGM ITF project. The source of this fund is the European Regional Development Fund. |

13 Statement of Funds (cont'd)

Development fund/ for the purchase and development of fixed assets, including the *NMGM ITF*
Development fund ITF project. The source of this fund is charitable donations.

14 Analysis of group net assets between funds

| Fund balances at 31 March 2005 are represented by: | Unrestricted Funds £000 | Restricted Funds £000 | Total £000 |
|---|--|--------------------------------------|-----------------------|
| Tangible fixed assets | 97,055 | 64,645 | 161,700 |
| Net current assets excluding cash | 803 | 70 | 873 |
| Cash | 4,471 | 1,794 | 6,265 |
| Unrealised gains included above: | | | |
| On tangible fixed assets | 7,245 | 3,763 | 11,008 |

15 Customs & Excise National Museum

The Trustees of NML act as custodians and Trustees of the collections that constitute the National Collections of the Board of HM Revenue and Customs (HMRC).

Possession of the National Collection has passed to NML under a deed of trust which allows NML to hold and display the National Collection for a period not exceeding 21 years from April 1994.

NML receives from the HMRC an annual Grant-in-Aid which allows the National Collection to be displayed and interpreted alongside NML's other national collections. Payments by HMRC in respect of grant-in-aid are made from the HM Revenue and Customs Resource Account for 2004/05 which is audited and published separately.

Transactions in respect of the museum are shown within the Restricted Income and Expenditure Funds.

Capital Grants

The development of the permanent gallery and associated facilities has taken place with the assistance of capital grants from HMRC. These grants are held within restricted funds and are applied as authorised expenditure is made.

The funding position as regards capital Grant-in-Aid is as follows:

| | |
|---|-------------|
| Application of Funds | £000 |
| Total funds received as at 1 April 2004 | 853 |
| Funds received in year | 0 |
| Total funds received as at 31 March 2005 | 853 |
| Funds applied as at 1 April 2004 | -828 |
| Funds applied in year | 0 |
| Funds applied as at 31 March 2005 | -828 |
| Unapplied capital funding at 31 March 2005 | 25 |

NML has submitted a request for further capital funding to HM Revenue & Customs in order to complete and replace the existing contemporary gallery. NML has designated £61,000 as matching funding.

15 Customs & Excise National Museum (cont'd)**Running Cost Grant-in-Aid**

NML receives an annual Grant-in-Aid in respect of the running costs of the National Museum. The grant also covers the conservation of collection items and purchases for the collection.

| Application of Funds | £000 |
|--|-----------------|
| Unapplied funds as at 1 April 2004 | 14 |
| 2004-2005 Grant-in-Aid | 323 |
| Repayment of b/f balance | -14 |
| Total Available GiA Funds | <u>323</u> |
| Funds applied to the running of the museum | <u>-318</u> |
| Unapplied funds as at 31 March 2005 | <u>5</u> |

Running cost Grant-in-Aid is agreed on an annual basis with HM Revenue & Customs.

16 Gower St Estates Ltd.

NML is a member of Gower Street Estates Limited (GSEL) a company formed to manage the areas within the Albert Dock formerly managed by the Merseyside Development Corporation (MDC).

GSEL is a company limited by guarantee, the other members being the lessees within the Albert Dock Estate also affected by the abolition of the MDC, together with new lessees within the estate.

The company is managed by a Board of Directors all of whom are appointed by the members. NML's nominated director is Mr J Hendry, ARICS. Directors of the company are not remunerated.

There are no employees of the company, the practical management of the estate being delegated to Insignia Richard Ellis Limited.

The gross expenditure of the company is netted down by any income generated, with the residual amount being covered by a service charge to members calculated by reference to an agreed cost sharing formula.

NML's contribution for the year, under this arrangement, was £70,860.

17 Capital Commitments

The Trustees are developing a capital programme having a potential value of some £84m, deliverable over the period 2005/06 to 2009/10.

Within this programme £7.5m of expenditure has been approved, of which £6.4m has been contracted for.

18 Cash flow information**Reconciliation of net incoming resources to net cash inflow from operating activities**

| | 2005 | 2004 |
|--|---------------------|--------------|
| | £000 | £000 |
| Net incoming resources before revaluations | 7,002 | 1,852 |
| Depreciation | 3,753 | 3,211 |
| Interest received | -232 | -204 |
| Gift in Kind | -1,594 | -230 |
| Decrease/(Increase) in stocks | 28 | -54 |
| Decrease/(Increase) in debtors | -1,543 | 1,285 |
| (Decrease)/Increase in creditors | 73 | 643 |
| Net cash inflow from operating activities | <u>7,487</u> | <u>6,503</u> |

Reconciliation of net cash flow to movement in net funds

| | | |
|---|---------------------|--------------|
| Increase/(Decrease) in cash in the period | 192 | 2,284 |
| Movement in net funds in the period | 6,073 | 3,789 |
| Net funds at 1 April | 6,073 | 3,789 |
| Net funds at 31 March | <u>6,265</u> | <u>6,073</u> |

Analysis of net funds

| | 1-Apr 2004 £000 | Cash Flow £000 | 31-Mar 2005 £000 |
|------|-----------------------|-------------------------------|---------------------------------|
| Cash | <u>6,073</u> | <u>192</u> | <u>6,265</u> |

19 Related Party Transactions

National Museums Liverpool is a Non-Departmental Public Body whose parent department is the Department for Culture, Media and Sport (DCMS). The DCMS is regarded as a related party.

In the year ended 31 March 2005:-

Of NML's Trustees:

Mr David McDonnell was the Chief Executive Worldwide of Grant Thornton and a director of NMGM Enterprises Ltd, a director of the Liverpool Culture Company Ltd and a member of the *Fourth Grace* Steering Group.

In 2003, Grant Thornton was appointed as Auditor for Gower Street Estates Ltd, on the Board of which NML has a nominee director and through which company NML has a stake in the upkeep of the Albert Dock Estate.

Mr Loyd Grossman OBE was a member of the *Fourth Grace* Steering Group, Chairman of the Campaign for Museums, a member of the Board of the Museums, Libraries and Archives Council (formerly Resource), Chair of the North West Cultural Consortium and a Commissioner of English Heritage (part year).

Cllr Frank Doran was a member of Liverpool City Council. He has declared an interest in relation to the proposed *Fourth Grace* development.

Mr Bryan Gray MBE was Chairman of the Northwest Development Agency, which has made grants to NML and has a leading interest in the *Fourth Grace* development. Mr Bryan Gray MBE was also a member of the *Fourth Grace* Steering Group.

Dr Janet Kear OBE was Chairman of an HLF independent assessor panel.

Mrs Alexis Redmond was a member of the St George's Hall Liverpool Trust.

Sir Neil Cossons OBE is Chairman of English Heritage and has declared an interest in the proposed *Fourth Grace* development at Liverpool's Pier Head.

19 Related Party Transactions *(cont'd)*

NML's Director, Dr David Fleming OBE, was a board member of the Mersey Tourism Board, St George's Hall, and the Bluecoat Arts Centre. He is a member of the North West Cultural Consortium, of the Steering Group for Liverpool's World Heritage Site, of the Executive Committee of the National Museums Directors' Conference and is President of the International Committee on Museum Management and Leadership.

Of NML's employees: Mr J Hendry was a Director of Gower St Estates Ltd, Dr J Edmondson was an officer and fellow of the Linnean Society of London and a councillor and member of the Botanical Society of the British Isles, Mr R Emmerson was a Director of the Pilkington Glass Collection Trustee Company Ltd, Mrs B Hope was a Director of ALVA, Ms S J Farr was a Director of the Sefton Park Palm House Preservation Trust, Ann Gleave was a Trustee of the E Chambre Hardman Trust, Janet Dugdale was a Director of the Museums Association and Open Eye Photography Ltd, Chris Clayton was a Director of Anoris Films Ltd and Julian Treuherz was a Director of Mere Hall Conservation Association Ltd and a Trustee of Lakeland Arts Trust.

During the year NML received grants from the following public sector bodies:

The National Art Collections Fund, the National Heritage Memorial Fund, the Heritage Lottery Fund, the Museums, Libraries and Archives Council (formerly Resource), the Northwest Development Agency, the Big Lottery Fund, the Mersey Partnership, English Heritage, the Department of Trade and Industry Office of Science and Technology, the Liverpool City Council, the Liverpool Housing Action Trust and the Liverpool University.

20 Connected Charities

Nine charitable trusts are connected to NML via a commonality of trusteeship and a close association of charitable purpose. The earliest of the trusts was created in 1873 and all of them predate the formation of NMGM in 1986, the trusts have a distinct legal existence and this is not at the command of NML.

The 2004-05 accounts of the trusts have not therefore been consolidated with those of NML. As such they do not fall within the remit of the Comptroller & Auditor General's audit opinion. They have, however, been separately audited by MacFarlane & Co.

The funds are pooled into expendable capital and non-expendable categories as authorised by the Charity Commissioners.

The accounts of the connected charities for the year ended 31 March 2005 are summarised as follows:

Income Account

| | 2005 | 2004 |
|---|-------------|------|
| | £000 | £000 |
| Gross income | 80 | 110 |
| Administration expenses | -4 | -4 |
| Net distributable income | 76 | 106 |
| The net distributable income has been applied as follows: | | |
| NML Operating Expenses | 44 | 62 |
| Collection Purchase Fund | 32 | 44 |
| Temporary Exhibition Gallery at Maritime Museum | 0 | 0 |
| Application of distributable income | 76 | 106 |

Capital Account

| | Total 2005 | Non Expen- dable Capital | Expen- dable Capital | Total 2004 |
|---|-----------------------|---|-------------------------------------|---------------|
| | £000 | £000 | £000 | £000 |
| Capital accounts as at 1 April 2004 | 1,942 | 1,596 | 346 | 1,828 |
| Net profit/(loss) on sales in year | 0 | 0 | 0 | 64 |
| Surplus/(deficit) on revaluation to 31 March 2005 | 141 | 111 | 30 | 59 |
| Fees associated with capital accounts | -13 | -11 | -2 | -9 |
| Capital accounts as at 31 March 2005 | 2,070 | 1,696 | 374 | 1,942 |

The capital funds are managed by the Trustees in conjunction with Rathbones Investment Management.

There have been no capital withdrawals during the year.

An amount of £50,000 remains unapplied in respect of a disinvestment of the Gladstone Bequest Capital in 1999. The unapplied amount is held by the Trustees of the National Museums Liverpool and will be applied in 2005/06 to the new capital programme at the Maritime Museum.

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