

**THE NATURAL HISTORY MUSEUM
TRUSTEES' AUDIT & RISK COMMITTEE**

69th Meeting on 25th June 2015

Present

Dr Derek Langslow in the Chair
Professor Sir Roy Anderson
Dr Kim L Winser OBE
Mark Richardson (co-opted member)

In Attendance

Lord Green of Hurstpierpoint (Chair of Trustees)
Hilary Newiss (Trustee)
Sir Michael Dixon (Director)
Neil Greenwood (Director of Finance & Corporate Services)
Jan Day (Head of Risk & Assurance/Committee Secretary)
Matthew Atkinson (Audit Manager, NAO)
Nick Buxton (Partner, BDO)
Anjali Kothari (Partner, Kingston Smith)

Chris Hills (Head of Human Resources) was in attendance for item 11.

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The Chair of the Audit & Risk Committee welcomed Hilary Newiss (Trustee) to her first meeting. Hilary Newiss was observing the meeting prior to her formal appointment as a member of the Committee in November 2015.

1 APOLOGIES FOR ABSENCE

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- 1.1 Paul Keane (NAO, Director) sent his apologies.

2 DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS (PAPER TAC 31/2015)

- 2.1 These were noted by the Secretary to the Audit & Risk Committee.

3 MINUTES OF THE MEETING HELD ON WEDNESDAY 9 MAY 2015 (PAPER TAC 32/2015)

- 3.1 The minutes were accepted as a true record of the meeting.

4. MATTERS ARISING FROM THE MINUTES

- 4.1 Offsite Storage New Build - para 17.5 - A storage company expected to spend excluding VAT £60 - £100 on construction costs per square foot. The majority of their stores did not, however, have air conditioning. Science Group had also been provided with the details of a company specialising in food and retail warehousing.

5 DIRECTOR'S REPORT (PAPER TAC 33/2015)

- 5.1 The Director presented his paper

- 5.2 Announced Cut to Resource Grant-In-Aid in 2015/16 - The Chancellor will be announcing an additional £3b of public sector savings in the budget on 8 July 2015. Departments, however, had already been told the impact for them. NHM had been given a relatively modest cut in grant-in-aid which was better than expected. It was 0.5% over the remaining 9 monthly grant-in-aid payments for the year. To protect ALBs DCMS had taken a c.1% cut centrally within the department.

- 5.3 Advocacy and Spending Review 2015 (SR2015) - Over the summer NHM will continue to work with officials at DCMS, Museum partners and the wider cultural sector in preparing the case for SR2015. Politically it made sense for the Budget deficit to be attacked more vigorously in the first two years, with a view to getting the Public Sector finances in balance by 2018/19. The most recent information request from DCMS effectively asked the Museum to model it's predicted outcome for SR2015. The Museum expectation was a continuance of the trend since 2010, broadly a 3% cash cut (5% real cut) per annum. However, if the same government departments and budgets remained protected, the average cut across other government departments may well be larger.

- 5.4 How the Museum will fair with a 3% cash cut scenario was dependent on: (a) the outcome of the NHM pay negotiations and the HM Treasury requirement to remove incremental pay progression from job families; (b) the Museum's ability to deliver increased growth in commercial income; (c) the new Development Teams' success in fund raising and sponsorship; and (d) scientific research grant income.

- MD/NG 5.5 The Chair of the Board and the Chair of the Audit & Risk Committee observed that the Museum should be bold in making its own individual case for SR2015. This should be based on young visitors, science, natural history and in particular public engagement. It was observed, however, that Museums had not historically been treated differently as regards funding. The quantitative evidence was: (a) the NHM's visitor profile included c.25% children. This was more than the majority of Museums with the exception of the Science Museum and Museum of Childhood; and (b) there was some evidence that the Museum had a higher proportion of black and ethnic minority visitors and more visits from lower socioeconomic groups (NS-SEC Groups 5-8). It was cautioned that the government's science agenda was administered by the Department for Business Innovation & Skills (BIS) and not DCMS. Multiple

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funding streams would create challenges for NHM and was not recommended.

- 5.6 Operating Costs - It was noted that if the Development Trust was successful in capital fund raising the resulting capital projects may lead to increased operating costs. The NHM business justification, however, for new projects included life time running costs. Not increasing operating costs significantly as a result of capital projects was a challenge across the sector. The NHM and sector's case to the government for capital funding will, therefore, include the need for increased running costs.
- 5.7 Collections Storage - The Budget on 8 July was expected to reveal the outcome of the discussions on the future of Blyth House, upon which the V&A, the British Museum and the Science Museum Group will base their future strategy for collection storage. This will provide the opportunity for NHM to talk in more detail with the Museums about collaborative project(s). The British Library project for printed materials had gone to the DCMS Investment Committee.
- 5.8 Crisis Communications Test Exercise - The emergence of social media as a major communication mechanism for newsworthy events meant that organisations can face communications crises in real time with alarmingly little notice. This was highlighted by a recent evacuation of the Waterhouse building. Tweets from evacuated visitors were picked up by the press within seconds. This resulted in newspaper calls to the NHM Press Office who had not had time to contact the Control Room about the incident. To test the Museum's ability to respond to communications crises the Museum Director set up a desk top exercise with NHM's outside communications advisers. The useful exercise on 23 June highlighted areas where improvement was required. In particular the need for backup 24/7 in order to avoid being reliant on one person. It was observed that CEO communication skills training were important.
- 5.9 Internal Audit Reports - Due to the short period since the last Audit & Risk Committee the Director and Head of Risk & Assurance had not reviewed any final audit reports at their one to one meetings. The Director and Head of Risk & Assurance had, however, reviewed category 2 recommendations not yet completed from previous audit reports. They were keeping a close watch in particular on: (a) PCI compliance which was being addressed by the Customer Relationship Management (CRM) project; and (b) Collections Auditing. There will be a further update on Collections Auditing at the February meeting.
- 5.10 Membership - The adjustment to the income forecast for Membership which was significantly down against target in the first two months of the year was unrelated to the CRM project. It was observed that: (a) an aggressive Membership target had been set; and (b) membership take up was seasonal and was not fully reflected in the calendarisation of NHM budgets.
- 5.11 Induction of New Trustees - It was best practice to have an induction day for new Trustees and an induction day was held on 15 June 2015. As a result of Trustee feed back there was a slightly lighter approach. A former employee of the National School of Government came in to talk about Trustee responsibilities. However, it was noted later in the meeting that trustee responsibilities as trustees of the Special Funds Trust and the Benevolent Fund had not been covered.
- 5.12 Queen's Birthday Honours List - A number of colleagues across the sector were awarded honours. A CBE went to Professor Chris Gilligan, NHM Trustee and a DBE to Frances Cairncross, Chair of the NHM Development Trust.
- 5.13 Major Corporate Risks 2015/16 - The Committee reviewed the Quarter 1 summary table of residual risk for the 2015/16 major corporate risks. As it was early in the year the majority remained unaltered as the improvement actions had not yet taken place. Some risks, however, were already deemed by the risk owners to have been reduced. However, these had not been scrutinised by the Senior Management Team (SMT) due to the timing of the last SMT meeting.

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The Chair of the Board observed that he would not expect any of the Major Corporate Risks to be reduced to Green in 2015/16.

- 5.14 Science Income Growth - The majority of improvement actions were scheduled for later in the year as a result the scores remain as originally evaluated.
- 5.15 Self-Generated Income - Members noted: (a) the early warning signs for some areas of the self generated income; and (b) the forecast reductions for catering & membership highlighted later in the meeting. As a result members were not convinced that the Major Corporate risk had reduced in Q1 from Red to Amber as reported to the Committee.
- 5.16 Risk Owner - Members and Chair of the Board expressed the view that the Risk Owners for Major Corporate Risks should always be members of the Executive Board (EB). Day to day responsibility, however, if appropriate can be assigned to a Risk Manager. It was noted that the new Head of Commercial Development was the Risk Owner for commercial income rather than the Director of Public Engagement (PEG). This was a concern in view of the first quarter profits forecast for commercial income for this financial year. The Director agreed to discuss the issue at EB.

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6. ANNUAL ACCOUNTS 2014/15 AND AUDIT COMPLETION REPORTS (PAPER TAC 34/2015)

- 6.1 The Director of Finance & Corporate Services presented his report to accompany the accounts.

6(a) The Natural History Museum Annual Report and Accounts

- 6.2 There had been an informal review of the accounts by the Chair of the Audit & Risk Committee, the Chair of the Board of Trustees and the co-opted member on 17 June 2015. The accounts presented to the Committee took into account the points raised at the 17 June meeting.
- 6.3 Final proof reading of the accounts was taking place and an initial draft had been submitted to DCMS for ministerial approval. It was unlikely, however, that ministerial approval will be received prior to the Trustees meeting on 30 June 2015. Any comments by the Audit & Risk Committee and the Trustees will be submitted to DCMS. It was intended that the accounts will be laid before Parliament in the week commencing 7 July after the Comptroller and Auditor General (C&AG) had signed the accounts. As the parliamentary recess date was not until Tuesday 21 July there was some leeway.
- 6.4 Resources Expended - It was noted that Total Resources expended for the year amounted to £82.8m including depreciation. The key figure of focus was, therefore, £70.2m without depreciation.
- 6.5 The Natural History Museum Trading Company Limited - It was observed that the 2014/15 Trading Company performance was reported against prior year but not the original 2014/15 budget. The budget was an important yardstick against which actual performance was measured and risks assessed. The Director of Finance & Corporate Services agreed to include the original budget in future papers accompanying the Accounts.

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- 6.6 Objectives and Activities - The Museum Strategy to 2020 set out an ambition to redefine the Museum and its impact on society, and strategic priorities for the next five years. Priorities were organised to reflect NHM commitment to extending it's impact - digitally, nationally, internationally, and in London. It was observed, however, that NHM's contribution to scientific education and literacy which was important for the future of the British Economy should also be highlighted.

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- 6.7 Reconciliation Table of Revenue Activity and Fixed Asset Movement In Year - The plethora of data in the table on page 9 of the Annual Report foreword maybe confusing to the reader. In addition: (a) the table did not highlight the key operating surplus figure of £2.2m; and (b) showed closing reserves of £494.5m which consisted largely of land and buildings. The NAO/BDO were not aware of any organisation in the sector who had resolved the problem of how to clearly show their overall results for the year. The foreword in the Annual Report was not prescribed, however, it needed to reconcile with the statutory accounts.
- NG 6.8 It was agreed that the Director of Finance & Corporate Services will bring possible models for the table for consideration and approval by the Committee to the November 2015 or February 2016 meeting.
- 6.9 Going Concern Assessment - The Director of Finance & Corporate Services provided an assessment which confirmed NHM will be a going concern at the date the trustees approved and signed the financial statements.
- 6(b) NAO Audit Completion Report**
- 6.10 The Audit & Risk Committee reviewed the findings set out in the Audit Completion Report presented by the BDO partner, including the draft letter of representation and audit certificate.
- 6.11 Audit Certificate - The Comptroller & Auditor General was expected to certify the accounts with an unqualified audit opinion and without modification.
- 6.12 Status of Audit - Combined Heating Plant Accrual - NAO/BDO had received confirmation of the date on which all works were complete. They were, however, awaiting receipt and review of external documentation relating to spend in the year e.g. contract or invoice.
- 6.13 Fraud - The risk of fraud from management override of controls and the risk of fraud in revenue recognition were presumed risks under the international auditing standards. The NAO/BDO did not identify any issues of concern.
- 6.14 Implementation of the New Finance System - The implementation of the new Finance System had been highlighted prior to the audit as a significant risk. The testing of manual journal entries with the help of IT auditors had now been completed. Explanations had been received for a few potential duplications and automatic system journals at weekends. NAO/BDO noted no material errors within the financial statements as a result of the transfer to the new financial ledger.
- 6.15 List of Identified Adjusted Misstatements - There was only one adjustment which was a reclassification of debtors and creditors which had no impact.
- 6.16 List of Identified Unadjusted Misstatements - NAO/BDO were required to report errors above 10k to the Audit & Risk Committee. Misstatements below £10k were regarded as "trivial". There were two misstatements above £10k: (a) repair work which should be capitalised; and (b) an understatement of accruals. The Audit & Risk Committee endorsed the reasons for not adjusting the misstatements.
- 6.17 Accruals Recognition - It was noted that the new Finance System had improved accruals recognition. The old Finance System was dependent on NHM staff submitting a year-end return. The new system, however, enforced compliance by requiring invoices to be receipted and paid against a purchase order number. There was one caveat where the invoice amount

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was higher/lower than the purchase order.

6.18 Proposed Letter of Representation - The Audit & Risk Committee endorsed the decision not to revalue galleries and exhibitions annually using appropriate indices on the basis any adjustment would not be material.

6.19 Management Letter – There were no points arising from the audit.

6(c) The Natural History Museum Trading Company Limited and Kingston Smith Management Letter

(a) Trading Company Accounts

6.20 The audit of the accounts was complete and the accounts had been approved at a meeting of the directors of the Trading Company.

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6.21 Cost of Sales - Cost of sales had increased significantly since 2014 largely due to the Wildlife Photographer of the Year (WPY). Increased cost of sales reflected the continuing loss of significant WPY sponsorship, additional costs for the 50th year celebration and a back dated partner licence payment. There was no statutory requirement to explain this, however, the Director of Finance & Corporate Services agreed to refer to this in the Director's Report.

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6.22 Wildlife Photographer of the Year (WPY) - The WPY operating loss in the accounts was offset by WPY retail and WPY touring exhibition income making a net profit of c.£1m. There was a presentational issue in the way the management accounts were shown in the Financial Review. This needed to be addressed to allow the monitoring of total WPY performance against running costs and the amortisation of the NHM buyout of WPY over five years.

6.23 Development Sponsorship - There was no Development Sponsorship in 2014.

6.24 Museum Consultancy - Museum consultancy had made a loss in 2014/15. The loss was largely the legacy of small projects with low profit margins obtained under the old Planning & Design Consulting (PDC) model for the consultancy business which had been wound up. The Museum was now investing in a new consultancy business model as part of the Commercial and International Strategy. This had the aim of winning a small number of large projects as the principle advisor to foreign governments. It was noted Museum Consultancy was also used to extend NHM's brand and reputation.

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6.25 Members agreed: (a) there needed to be a defined set of performance criteria against which to measure the financial performance of Museum Consultancy; and (b) a robust pricing policy. These issues will be picked up at the Science Advisory Committee. In addition, there will be a discussion on the International Strategy following the Board meeting on 30 June 2015.

(b) Kingston Smith Management Letter

6.26 The Kingston Smith Partner presented the Management Letter.

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6.27 Observations Concerning the Operation of the Accounting and Control Systems - Any observations were being addressed by the Finance Team.

6.28 Operation of the Accounting and Internal Control Systems - All the points highlighted on the operation of the Accounting and Internal Control Systems were given a low risk rating with the exception of the VAT return. There was an under-claim on VAT identified by the Museum. The

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under-claim had been notified to HMRC and will be refunded to the Museum.

6.29

Sector Updates

- (a) Data Protection and Third Party Data Breaches - Organisations were still failing to effectively manage their data risks. This was demonstrable through the ever-increasing number of fines being levied by the regulators. It was noted that the Museum Archivist & Records Manager acted as the Data Protection Coordinator for NHM and the Trading Company.
- (b) Energy Saving Opportunity Scheme (ESOS) Regulations - The regulations required a 'Lead Energy Assessor' conducted an ESOS Assessment. However, the regulations were voluntary for most public sector bodies and were not subject to any audit requirements. There were only a small number of experts in the field and it was recommended a review was commissioned as soon as possible. The Museum had appointed a new Energy & Sustainability Manager who joined the Estates Department at the end of 2014. He was picking up on Energy requirements rigorously.

6(d) Audit & Risk Committee Recommendation

6.30 Members recommended that on 30 June 2015 the Board of Trustees approve:

- (a) the consolidated accounts for the Natural History Museum (including the consolidation with the Natural History Museum Trading Company Ltd, the Cockayne Trust, the Special Funds and the Benevolent Fund); and
- (b) the Natural History Museum Special Funds Trust and the Benevolent Fund accounts. The Trustees are also trustees of these funds.

The accounts for the Natural History Museum Trading Company and the Cockayne Trust had already been approved.

6.31 The Chair and members congratulated the Director of Finance & Corporate Services and his team on the successful completion of the audit and the annual accounts.

7. DIRECTOR OF FINANCE & CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL - MAY 2015 (PAPER TAC 35/2015)

7.1 The Director of Finance and Corporate Services presented his paper.

7.2 General Fund - The forecast year end outturn for the General Fund in 2016 was £5.996m which was an increase compared with the original budget approved by Trustees in November 2014. This reflected a decrease in resource grant in aid announced by the Chancellor in June and had been more than offset by the brought forward General Fund from 2014/15.

7.3 Self Generated Income - There were early warning signs for some self generated income streams. It was noted that aggressive income targets had been set for 2015/16. As a result the forecasts for catering and membership had been offset against the income risk factor which was included in the original budget. This had implications for the 2015/16 outturn. Catering and membership were significantly affected by visitor numbers. Whereas growth had been secured for retail in previous years without a significant increase in visitor numbers. Whilst it was only two months into the financial year members expressed concern as income generation was critical with a reducing grant-in-aid.

7.4 Single Point Failure - It was noted that in some areas the Museum was dependent on one person being available. Their absence posed a risk for both income generation and efficiency.

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- 7.5 Visitor Attendance - There was a decline in attendance at South Kensington for the first time in eight years. The Museum was evaluating the potential reasons for this and it appeared to be a shared phenomenon with peer institutions. Sterling's value against the Euro meant there were fewer European visitors. It may also be reducing the spend of visiting Europeans. The proportion of overseas visitors had increased significantly over the last 10 years from c.38% to c.64%. As a result the NHM was more vulnerable to fluctuations in the value of sterling.
- 7.6 Entrance Charges - Members agreed charging entrance was a revenue opportunity. Government policy, however, required Museums & Galleries to provide free access to the national collections. The Museum Director had rejoined the National Museum Directors' Council (NMDC) executive. He done this in order to: (a) help bring about a consistent policy on charging across the sector; and (b) influence a change in government policy on free admission. There were various entrance charging models which could be adopted e.g. charging for a newly refurbished gallery for the first 18 months. The Cabinet Office supported new commercial models and English Heritage was an example. The government agreed to provide £80m to English Heritage if it transferred the national heritage collection to a charitable trust. On 1 April 2015 English Heritage separated into two parts: (a) a charity that looked after the collections and charged entrance; and (b) Historic England that champions the nation's wider heritage.
- 7.7 Agreeing a commercial model for Museums & Galleries, however, would not be easy to achieve due to differences. In particular, the proportion of charged for space versus free space varied enormously by institution. A visit to NHM need not include a visit to a special exhibition whereas a visit to a Tate Gallery was more likely to. Museums & Galleries also had ideological differences of opinion in favour and against charging. It was observed there was a significant opportunity to create more special exhibition space in NHM.
- 7.8 Member for a Day - A possible idea was trialling a member for the day to avoid the queues. Daily membership could be booked via the NHM website and was also an engagement opportunity. It was noted, however, that the percentage of NHM visitors rating their visit as excellent or good continued to be 96% despite queuing.
- 7.9 Retail Trading Income - The Annual Report 2014/15 showed a large growth in website visits from 8.6m in 2013/14 to 10.3m in 2014/15. This provided an opportunity to drive retail trading income. It was agreed that in future onsite retail income and web retail income will be shown separately in the quarterly Financial Review.
- 7.10 Other Income \ Related Expenditure - There was a net deficit of £0.220m compared with a full year budget of £1.690m. The majority of the budget (£0.8m) related to a provisional sum for exhibition sponsorship which had yet to be secured. It was noted that sponsorship budgets were calendarised where possible.
- 7.11 Non Salary Expenditure - Non salary expenditure was up significantly on 2014/15. The most likely explanation was an understatement in 2014/15. The understatement was due to staff grappling with the intricacies of the new Finance System which had gone live on 6 April 2014. The new Finance System required staff to raise purchase orders and receipt goods.
- 7.12 Recurrent / Operating Expenditure - Recurrent / operating expenditure was broadly in line with the budget.

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8. HEAD OF RISK & ASSURANCE PROGRESS REPORT INCLUDING UANNOUNCED/SURPRISE AUDITS (PAPER TAC 36/2015)

8(a) Head of Risk & Assurance Progress Report

- 8.1 The Head of Risk & Assurance presented her report.
- 8.2 Review of the New Finance System - Key Controls - The review of the new Finance System by the NHS London Audit Consortium took place in two stages: Phase 1 was a full audit. Phase 2 was a follow up review, to assess the progress made in implementing the recommendations raised in the Phase 1 report. The results of the follow up work confirmed that significant progress had been made in addressing the recommendations. The vast majority of the 71 recommendations had been fully implemented and significant progress made in others. This had enhanced and strengthened the control framework and an overall Reasonable Assurance level was assigned. As a result the overall level of NHM residual risk had fallen from category 2 to 3.
- 8.3 IT Firewall & Internal Network Testing - External specialist IT Network Security Consultants were testing the resilience of the Museum's Cyber vulnerabilities including firewall, network security and key application portfolio. The scope had been extended to cover areas of recent system change, the Website, new Finance System and eShop. The external IT consultants were currently on site reviewing the internal network. The work will be completed by September 2015 and there will be an update at the November meeting on the work.
- 8.4 Risk & Assurance Audit Plan 2015/16 - Extra work will take place on NHM supplier data processes. In addition, a review of the Cash Office maybe added to the audit plan. The last review of the Cash Office was in December 2014.
- 8.5 **Outstanding Recommendations Category 1 & 2** - The Committee reviewed a log of outstanding recommendations with a priority 2 classification or higher which was maintained by the Head of Risk & Assurance.
- 8.6 Crisis Management & Business Continuity - Due to the work that had taken place Crisis Management & Business Continuity will be removed from the schedule.
- 8.7 Cash Office Operations - At the time of writing the report the Head of Risk & Assurance understood two members of the Finance Team would be carrying out surprise spot checks of the Cash Office once a month. However, the Acting Head of Finance had subsequently decided the Finance Team did not have the resource. The Acting Head of Finance was recommending PEG Front of House Managers who were independent of the Cash Office carry out the checks. The Chair of the Board and Chair of the Audit & Risk Committee observed it should not be open to negotiation. PEG must carry out the required number of checks. Brisk action was required by the Director of Finance & Corporate Services. The Director of Finance & Corporate Services undertook to ensure surprise spot checks of the Cash Officer were introduced as a matter of priority. It was noted the Assistant Management Accountant had been reviewing the process and written a report with recommendations.
- 8.8 Contract Letting and Procurement - Risk & Assurance recommended the introduction of central electronic filing system for contract and procurement documentation. A contract management tool had been obtained by the Procurement Team i.e. BiP Delta eSourcing Contracts register. The register was live and documentation was being uploaded by the Procurement Team.

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JD 8.9 Payment Card Industry (PCI) Data Security Standard (DSS) - There were approximately 3000 cardholder data records on 'Ariadne' the Membership database. The destruction of these records was dependent on retiring 'Ariadne' when the new Silverbear Customer Relationship Management (CRM) system was implemented in October 2015. The Chair of the Board asked that the November Audit & Risk Committee was: (a) assured this had been done; and (b) informed of any reasons the action had slipped. It was noted Ariadne' is not externally exposed outside the Museum's network and is password protected. Only a limited number of staff have access.

8(b) Unannounced Surprise Audits

8.10 At the May 2015 meeting there was a discussion on the merits of unannounced surprise audits/spot checks particularly in relation to Security, Cash and Stock. The Head of Risk & Assurance presented her report which outlined her approach and that of all the Heads of Audit she consulted prior to writing the paper.

8.11 While unannounced audits by the Risk & Assurance team may be theoretically appealing, in practice pre-arranged audits were more efficient, less disruptive to departments and logistically ensure there was ready access to relevant personnel, information and assets. In addition, the Risk & Assurance team did not have the resource to carry out the checks required. Independent staff often working in the same operational area were able to carry out checks more efficiently. Checks by operational staff were viewed by departments as part of their own processes and controls.

8.12 Another disadvantage of unannounced audits by the Risk & Assurance team was it was important for auditees to feel comfortable and have trust in the internal audit process and Risk & Assurance staff. Once trust was lost it was very difficult to re-establish. This was observed independently by the Registrar at the May 2015 Audit & Risk Committee. The Registrar told members the recent review of "Incoming Research Loans" had demonstrated to her that where there was staff trust in the audit process auditees will highlight control weaknesses which would not otherwise come to light. The Co-opted member agreed it was very difficult to carry out effective audit in a hostile environment.

8.13 Physical Penetration Testing Security - There was one area which could be enhanced and that related to surprise in-depth independent physical penetration testing by specialists to identify wider vulnerabilities of the security system. This could include: hostile reconnaissance, social engineering, suspicious packages etc. One Museum carried out testing annually as they found the results and assurance it provided very useful. Although 'Live Events' such as incursions into the grounds and the building provided some degree of assurance there maybe unknown security weaknesses. The Head of Risk & Assurance had the agreement of the Head of Security and the Museum Director to add physical penetration testing to the Risk & Assurance plan.

JD 8.14 The Committee were assured by the paper and agreed with the recommendation that physical penetration testing should be added to the 2015/16 Risk & Assurance Plan.

9. UPDATE ON CRISIS MANAGEMENT CAPABILITIES ON-SITE AND OFF-SITE (TAC 37/2015)

9.1 This item was postponed to 12th November 2015.

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10. PRESENTATION BY THE MUSEUM DIRECTOR ON THE MAJOR CORPORATE RISK “WE DO NOT ENGAGE EFFECTIVELY WITH THE NEW GOVERNMENT POST THE GENERAL ELECTION AND FAIL TO SECURE THE BEST SETTLEMENT IN SR2015” (PAPER TAC 38/2015)

10.1 The Director made his presentation on the management of the risk.

10(a) Mitigating Actions

10.2 NHM had always worked with DCMS officials and other bodies representing DCMS ALBs to promote culture and the case for DCMS funding as a whole. While Chair of the NMDC the Museum Director met the Chief Executive of the Arts Council and English Heritage on a regular basis. NHM was an active contributor to ‘Brand UK’ and participated actively, for example, in the ten ‘Great Campaigns’. The Museum maintained good relations with DCMS ministers and officials and worked with them to seek new solutions to problems. NHM had been positioned with DCMS as being well run, successful, ‘special and different’. A few years ago, for example, DCMS undertook a pilot programme to introduce a new system of self-assessment and peer review of sponsored museums. The report observed that NHM was not just a museum but a major scientific research institution. The report noted the review did not assess the excellence of NHM scientific research and the Museum had external peer reviews to do so.

10(b) New Improvement Actions

10.3 The Museum Director had re-joined the Executive Committee of NMDC to help shape the wider approach to SR2015. NHM were working on how to promote the Museum as a successful DCMS funded body during the SR2015 period. The Museum had positioned NHM in the wider public arena through partnership with others e.g. ‘BBC R4 – Natural Histories’ which were being aired during the spending review discussion period. The Museum engaged with government more widely than DCMS. Historically NHM had engaged with the Science Minister, Department for Environment Food & Rural Affairs (DEFRA), Department for International Development (DFID), the Foreign & Commonwealth Office (FCO) and others highlighting the wider educational and scientific role of NHM.

10.4 DFID Research Funding - It was observed there may be DFID research funding opportunities for the NHM. Historically DFID had focused on poverty amelioration. However, DFID were working towards achieving the millennium development goals. NHM may, therefore, be able to sell its expertise in areas such as the eradication of tropical diseases.

10.5 The Museum was working actively to engage with the new Government and the new Secretary of State for Culture, Media and Sport, John Whittingdale. Ed Vaizey had returned as Minister of State for Culture and the Museum Director had a good relationship with him. The Museum will provide opportunities for Ministers to visit the NHM and speak e.g. ‘First Life’ launch.

10.6 The Museum will continue to point out the positive differences between NHM and others in the sector. NHM will present historical analyses that reflected well on the Museum. The last 10 years, for example had seen the biggest growth in NHM visitor numbers. The Museum will build on its reputation for effective collaboration and sector leadership e.g. the shared collection storage initiative.

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- 11.0 PRESENTATION BY THE HEAD OF HUMAN RESOURCES ON THE MAJOR CORPORATE RISK “WE FAIL TO CREATE AND IMPLEMENT A COMPELLING NEW EMPLOYMENT OFFER THAT MEETS OUR FUTURE NEEDS” (PAPER TAC 39/2015)**
- 11.1 The Head of Human Resources (HR) made his presentation on the management of the risk. The Employment Offer project had four phases and three had been delivered. The project had reached Phase 4 implementation.
- 11.2 Phase 1 - Research was undertaken in Phase 1 and this found that overall the pay offer was sound. However, the cumulative effect of pay constraint since 2010 attracted negative comment in the 2013 and 2015 staff surveys. The pay experienced by some was a barrier to their work here.
- 11.3 Phase 2 - Phase 2 was the option evaluation and appraisal phase. The focus of this phase was alternative progression models. This work identified a value for money alternative as the preferred option.
- 11.4 Phase 3 - Detailed propositions were costed and a draft business case submitted to DCMS.
- 11.5 Risk Management - There were a number of risks which needed to be managed.
- 11.6 (a) Employee relation risks as the unilateral removal of structured incremental pay progression from job families as mandated by the HM Treasury will be opposed by the trade unions. This will be an essential strand in the business case submitted to the Treasury for approval.
- 11.7 (b) Demotivation/engagement risks as there was no strong relationship between performance and pay built into the pay offer.
- 11.8 (c) Recruitment risks where pay does not reflect the skill level particularly in science. NHM was behind academic and research salaries. NHM can address this by resetting some of the starting points of senior bands 1, 2, 3 and making adjustments to the science job families start and finish points.
- 11.9 (d) The Museum must provide a cogent business case to HM Treasury via DCMS in the context of the July budget and the comprehensive spending review. The Head HR was unable to arrange a meeting between HM Treasury, DCMS and the Museum. However, following a meeting with DCMS the Museum had submitted a draft business case to DCMS. The business case set out the options. Do nothing was not acceptable and the preferred option was an affordable negotiated settlement within a percentage pay offer range submitted to HM Treasury. The first meeting with the Joint Negotiating Committee was being held on 25 June 2015.
- 11.10 (e) An effective communication strategy was required to explain the pay offer once approved by HM Treasury, DCMS and agreed with the trade unions.
- 12 ANY OTHER BUSINESS**
- 12.1 There was no other business
- 13 CLOSED SESSION WITH THE INTERNAL AND EXTERNAL AUDITORS**

ACTION

14 DATE OF THE NEXT MEETING

14.1 The next meeting will be held at 10. 00 a.m. on Thursday 12 November 2015

KEY TO ACTION INITIALS

Michael Dixon - MD

Neil Greenwood - NG

Frances Allen - FA

Justin Morris - JM

Jan Day - JD