

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

70th Meeting on Thursday 12th November 2015

Present

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

In Attendance

Lord Green of Hurstpierpoint (Chair of Trustees)
Sir Michael Dixon (Director)
Neil Greenwood (Director of Finance & Corporate Services)
Jan Day (Head of Risk & Assurance/Committee Secretary)
Matthew Atkinson (Audit Manager, National Audit Office)

Stuart Craik (Head of Security) and James Nicholson (Visitor Engagement Manager) were in attendance for item 12.
Ian Owens (Director of Science) was in attendance for item 13.
Justin Morris (Director of Public Engagement) was in attendance for item 14.

ACTION

1 APOLOGIES FOR ABSENCE

1.1 Hilary Newiss (Trustee/Committee Member), Professor Sir Roy Anderson (Trustee/Committee Member), Paul Keane (NAO, Director) and Nick Buxton (Partner, BDO) sent their apologies.

2 DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS (PAPER TAC 40/2015)

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

ACTION

3 MINUTES OF THE MEETING HELD ON 25 JUNE 2015 (PAPER TAC 41/2015)

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

4. MATTERS ARISING FROM THE MINUTES

4.1 There were no matters arising.

5 DIRECTOR'S REPORT (PAPER TAC 42 /2015)

5.1 The Director presented his paper

5.2 Death of Security Officer - On 16 September 2015 a member of the Security Team collapsed in the Control Room and first aid was administered. They were taken by ambulance to hospital but were regrettably pronounced dead that evening. Evaluation of the event confirmed that NHM procedures worked efficiently and there was a good response from the emergency services.

5.3 Heightened Security on the Advice of the Arts Council National Security Adviser - On Wednesday 14 October 2015 NHM received a communication from the Arts Council National Security Adviser. The National Security Advisor provided guidance to museums on security and the Government Indemnity Scheme. The advice to NHM was of a 'severe and imminent' threat to Museums. This suggested an unknown group were planning to attack a museum they had already visited and steal collection item(s) on display. The Head of Security reminded staff of NHM security guidelines and the need for increased vigilance.

5.4 Security Penetration Test - On 22 October 2015 an external company conducted a physical penetration test of NHM security, as commissioned by the Audit and Risk committee.

5.5 Museum Attendance - NHM attendance to the end of October was at an all-time high c.2% ahead of last year. Strong performance was not, however, consistent across the sector. The V&A was up (based on the success of the Alexander McQueen exhibition) and the Science Museum down. The National Gallery and Tate Modern also appeared to be down on prior year. Anecdotally the NHM was a 'must see' venue for many foreign visitors. It was observed that: (a) an analysis of the visitor profile was important for retail development; and (b) long NHM visitor queues were likely of benefit to other local museums.

5.6 Special Exhibitions - The longer run of last year's Wildlife Photographer of the Year (WPY) exhibition did not achieve a significant increase in visitors suggesting the normal six month run was the right duration. The initial performance of the new WPY was good. The Director of Public Engagement was developing a detailed business plan in the light of the NHM buyout of WPY. The exhibition was sold internationally to venues with their own criteria for sponsors. Therefore, one main sponsor for the exhibition may not be the best model.

5.7 Donation Boxes - Donation Box income had improved significantly since the introduction of new donation boxes and will exceed the target for the year. Year-to-date income (including map honesty boxes) was up 140% on 2014/15. However, donations per head were behind others in the sector who were more proactive than NHM when soliciting donations from visitors. It was observed the acceptance of foreign currency by the Museum needed to be made more explicit.

ACTION

- 5.8 Commercial Performance - Overall commercial performance was not significantly ahead of prior year and the conversion rate was down. A contributory factor maybe the higher proportion of overseas visitors. The challenge was encouraging visitors to drop into the shops or a café. There had, however, been considerable investment in on-site commercial activities with the new Earth Galleries shop and new retail product lines which were being introduced. Better royalty terms had been negotiated on the new catering contract. The Blue Water 'pop-up' shop had opened with an encouraging first week's takings. The Chair of the Audit & Risk Committee commended the Museum on the design of the main shop. A member observed there were a number of quick wins which could be introduced in the Retail shops ahead of the introduction of new product lines. The member agreed to bring the quick win suggestions to the attention of the Director of Public Engagement.
- KW
- 5.9 Retail Shrinkage - Retail shrinkage (known and unknown) was monitored by Retail managers, internal audit and the external auditors for the Trading Company. The external auditors for the Trading Company had observed that NHM unknown shrinkage was low in comparison to other organisations. A member observed they had gained the impression unknown shrinkage was high following a meeting with the Head of Retail. The member wished this to be explained by Retail.
- KW/JD
- 5.10 Collection Storage - The Museum was continuing to discuss its strategic approach to offsite storage with DCMS and selected partners in the museum & galleries sector and other Arm's Length Bodies. The future of Blythe House as a storage space for the V&A, Science Museum and British Museum was unclear due to the cost to the Treasury of rehousing the collections stored there.
- 5.11 Trustee Appointments - The chair of the Board had requested a closed session of the Board of Trustees meeting on 17 November to discuss upcoming Board and Committee changes.
- 5.12 Preparation for SR2015 - The outcome of the Comprehensive Spending Review (CSR) was on 25 November 2015. DCMS had submitted plans for both a 25% and a 40% real terms reduction in funding. Officials had indicated that despite wishing to protect Museums from harsh cuts, their options to do so were limited, in view of the detrimental effect on other sectors.
- 5.13 Review of Outstanding Audit Recommendations - The Museum Director and Head of Risk & Assurance reviewed the high priority audit recommendations outstanding from previous audits. There was action in each case, even if the ultimate resolution was some time into the future.
- 6 DIRECTOR OF FINANCES & CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL 2015 TO SEPTEMBER 2015 (PAPER TAC 43/2015)**
- 6.1 The Director of Finance and Corporate Services presented his paper.
- 6.2 General Fund - The forecasted year end outturn for the General Fund was £11.841m which was a significant increase compared with the original budget approved by Trustees. This reflected: (a) higher than anticipated General Fund balance brought forward from 2014/15; (b) capital project savings; and (c) reductions in operating expenditure.
- 6.3 Capital Expenditure - 6.3 Capital projects were reviewed at the Executive Board planning conference and capital investment was cancelled, postponed or reduced. Plans to increase space in the North East Tower had been cancelled. The Waterhouse Link and the cooling strategy had been delayed. There were also reduced allocations for science capital equipment and core estate infrastructure. Although there were some challenging consequences, the Museum will be in a better position to fund self-generated income projects in the short term.

ACTION

- 6.4 The Waterhouse Link - At the Executive Board planning conference it was decided to delay the significant expenditure needed for the Waterhouse Link due to start in 2016/17 for 2 years. The funding was being reprioritised to other short term projects geared to increasing self-generated income. The delay will also assist the operational management of the site during the Hintze Hall project.
- 6.5 Resource - Operating Expenditure - There will be planned savings on science salary expenditure in anticipation of the outcome of the Comprehensive Spending Review (CSR). Energy costs had not increased as expected and there was a £300k business rates rebate. The Museum purchased its energy through The Energy Consortium (TEC) which provided energy solutions to the public sector. The Museum was contracted to purchase energy via a particular tariff.
- 6.6 Net Self-Generated\ Trading - There were challenges for the visitor facing businesses in delivering against their targets (Admissions, Catering, Retail and Membership). A revised forecast outturn with a net reduction of c.£0.6m, had recently been prepared. This had fully utilised the income risk factor of £1.3m included within the original budget.
- 6.7 Monthly Management Accounts - The Chair of the Board of Trustees observed that although the Museum currently had a healthy operating surplus further cuts to government funding will necessitate more accurate monitoring of monthly operating expenditure and accruals. The Executive Board must identify and track via the Management Accounts the critical numbers for running the Museum business e.g. operating expenditure, operating surplus, net self-generated income. It was noted there was no risk of any government claw-back of the NHM operating surplus and a significant amount of expenditure was fixed e.g. security and maintenance.
- 6.8 The Chair of the Audit & Risk Committee said in 2016/17 members wished to see: (a) a clearer picture of the monthly financial position; (b) more accurate accrual reporting by budget holders; and (c) the improved calendarisation of budgets by budget holders. The management accounts should also include the year-to-date budget for trading income. The year-to-date budget was an important yardstick against which actual performance was measured and risks assessed.
- NG/EB
- 6.9 It was agreed that the Executive Board and the Director of Finance & Corporate Services would review: (a) the format of the information contained in the Management Accounts; (b) include the year-to-date budget for trading income; and (c) seek improvements in the accuracy of the data provided by budget holders.
- NG/EB
- 7 MANAGEMENT RESPONSE TO KINGSTON SMITH RECOMMENDATIONS 2014-2015 (PAPER TAC 44/2015)**
- 7.1 The Committee considered the management response to the audit findings arising from the 2014/2015 year end audit of the NHM Trading Company by Kingston Smith.
- 7.2 Stock Value - The amount by which NHM stock was insured was significantly lower than the stock held at the year end. The increase in insurance premium, however, was not significant. It was observed that higher Retail turnover should not automatically lead to a significant increase in stock value. This was likely due to a change in business model where the Museum purchased directly from Retail's existing suppliers rather than via a third party. Although this should result in improved profit margins there will be a significant increase in warehousing and cash flow costs which needed to be taken into account.
- 7.3 Postage Costs - Web sales were being posted net of postage costs whereas the sales should be posted as a gross figure. Cybertill the Museum's EPOS stock counting system was not capable of separating postage as a product. The Museum was looking at how postage can be captured going forward and this requirement formed part of the tender specification for a new

ACTION

EPOS system.

- 7.4 Equal Pay Audits - From 1 October 2014 Employment Tribunals can order employers who have breached equal pay legislation to carry out an audit. This was likely to have a significant impact on resourcing if organisations were unprepared, or forced to undertake one. The Museum carried out regular equal pay audits and the last one was in September 2014.

8 PRESENTATION OF FINANCIAL INFORMATION IN THE FOREWORD TO THE ANNUAL ACCOUNTS (PAPER TAC 45/2015)

- 8.1 The Director of Finance & Corporate Services presented his paper.
- 8.2 An action arising from the agenda item to approve the Annual Report and Accounts at the June 2015 Audit & Risk Committee was to review the presentation of the financial results in the foreword to the Accounts. An exemplar could not be found across the Museums & Galleries sector. The Director of Finance & Corporate Services had discussed the proposed format with the Head of Finance and the co-opted member. There were two elements; (a) the table presented; and (b) the accompanying narrative.
- 8.3 It was observed the key was to simplify the figures in the table and include transparent narrative. The overall NHM financial performance was lost in a plethora of data and movements in the statutory accounts. The only requirement by the external auditors was the total figure in the table could be traced back to the statutory accounts. There was no requirement to reconcile each number in the table.
- 8.4 The Chair of the Board said the critical numbers for running the Museum business discussed earlier in the meeting should be included in the table e.g. net self-generated income, grant-in-aid, total resources, operating expenditure salaries and non-salary and operating surplus.
- 8.5 It was noted that the operating surplus for 2014/15 was £47k before: (a) the one off £6m grant from the Development Trust being the return of funds deposited by the Museum; and (b) depreciation. The removal of the opening and closing reserves figures which consisted largely of land and buildings was welcomed by members as these were misleading to the reader. The loss on foreign exchange was an accounting loss rather than a cash loss.

- NG 8.6 It was agreed that the Director of Finance & Corporate Services would revise the table in the light of the discussion.

9 NAO/BDO AUDIT PLANNING REPORT 2015/2016 (PAPER TAC 46/2015)

- 9.1 The NAO Audit Manager presented the paper. The Director of Finance & Corporate Services had agreed the plan with the exception of the increased audit fee.
- 9.2 Members of the Audit & Risk Committee were asked to consider: (a) whether the assessment of the risks of material misstatement were complete; (b) whether management's response to these risks was adequate; (c) the audit plan to address the risks; and (d) whether the financial statements could be materially misstated due to fraud.
- 9.3 Risk Assessment - BDO had carried out a risk assessment. There were two presumed International Standard on Auditing (ISA 240) significant risks and one other risk.

ACTION

- 9.4 Presumed Significant Risks - There was a general presumption under the international auditing standards of: (a) the risk of fraud from management override of controls. The audit response was to test journals, adjustments, estimates and transactions outside of the normal course of business; and (b) the risk of fraud in revenue recognition. The audit response was to review the work of the Trading Company external auditors, Kingston Smith and test significant income streams. It was noted that the Trading Company Gross profit in 2014/15 was approximately £10.5m.
- 9.5 Significant Risks - Revised Charities Statement of Recommended Practice (SORP) - The Museum will need to comply with the revised Charities SORP for 2015/16. There were two key areas where changes will be required: (a) accounting for employee benefits (holiday pay); and (b) presentational changes required to the Statement of Financial Activities (SOFA).
- 9.6 Audit Fee - The estimated £2,300 audit fee increase was based on the one-off costs of auditing the prior-year restatement due to the new SORP. The complexities of the new SORP and the Financial Reporting Standard (FRS) needed to be worked through by BDO to accurately assess: (a) the extra time to produce the first set of accounts under the new SORP; and (b) the alignment of Trading Company accounts with the Museum accounts. It was noted the Trading Company can adopt either FRS 101 for small entities or FRS102 for medium-sized and large entities.
- 9.7 Members agreed: (a) the audit fee; and (b) the one-off increase in the audit fee for 2015/16 with the expectation that the actual increase will be less than the estimated £2,300 and the increase will not be carried forward to 2016/17.
- 9.8 Other Matters with a Financial Statement Impact - The outcome of the Comprehensive Spending Review (CSR) will be published on 25 November 2015 and may require significant savings to be made. BDO will review any provisions / accruals where redundancy announcements had been made prior to the year end and ensure these were correctly calculated and categorised. It was noted that 2015/16 was the first year of the new accounting system since the implementation of all the key control review recommendations made by the NHS London Audit Consortium (NHS LAS) in their report.
- 9.9 Reliance on Internal Audit - BDO will liaise closely with internal audit through the audit process and seek to take assurance from their work where their objectives cover areas of joint interest. The Museum Director requested that the areas of work on which reliance would be placed were notified to the Head of Risk & Assurance and the Museum.

JD/MA

10 HEAD OF RISK & ASSURANCE PROGRESS REPORT TO NOVEMBER 2015 (PAPER TAC 47/2015)

- 10.1 The Head of Risk & Assurance presented her report.
- 10.2 Physical Penetration Testing - As recommended in the Head of Risk & Assurance's June 2015 paper "Unannounced Audits" a physical penetration test had been undertaken by a firm of outside consultants. The Head of Risk & Assurance and the Head of Security had met with the supplier to agree the terms of engagement and the scope of the test proposal. The Head of Security will give an update later in the meeting - please see para 12.8.
- 10.3 Pest Management - The draft report had been issued to Science Group and other relevant managers. The Head of Risk & Assurance was awaiting a response before issuing the final report.

ACTION

- 10.4 Cyber Security - Outside consultants had carried out testing of the website, the new Finance system and the external and internal network. Due to technical difficulties, however, testing of the **LIVE** E-Shop was unsuccessful. The testing exceeded the number of E-shop connections at which it was configured. The E-Shop timed out after five minutes and did not respond. The current solution, therefore, was to reconfigure the Quality Assurance (QA) E-Shop to replicate the **LIVE** environment. This was not ideal, however, as the QA E-Shop was unlikely to be an exact copy of the **LIVE** E-Shop. Members expressed concern that the E-Shop did not have sufficient capacity to handle exceptional customer demand and requested an update on the testing at the next meeting.
- JD
- 10.5 Supplier Standing Data - The review of "Supplier Standing Data" was undertaken at the request of the Director of Finance & Corporate Services. Overall, the Finance Department had implemented reasonable controls in this area. The risk of supplier bank detail scams, however, can never be completely eliminated by the Museum as fraudsters are turning to increasingly sophisticated methods e.g. number spoofing. The report took a "Belt and Braces" approach. A number of recommendations will not be implemented as they were deemed impractical by the Finance Team. A key finding was procedures were not uniform across the Finance Department or fully understood.
- 10.6 Audit Efficiency – Internal Audit had difficulty in establishing with the Finance Team the most efficient and effective communication channel for Dimensions & Focal Point system test queries. This had resulted in significant delays in the completion of audit work. The Head of Risk & Assurance was meeting with the Head of Finance to discuss.
- 10.7 Cross Government Internal Audit Manual - The new manual was issued to Heads of Internal Audit on 22 October 2015. The Central Government audit profession had adopted a four category assessment system for both annual and engagement opinions from April 2014. This would replace the current four category system used by the NHM Audit Team.
- JD
- 10.8 **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.
- 10.9 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. Full go live of CRM had been delayed to January 2016. Credit card data will not be removed from the Members database until after go live. It was noted PCI DSS was a mandatory requirement of the Card Schemes. Currently, however, in the UK Card Schemes were only taking action against organisations where there had been a serious card data breach. This allowed NHM time to: (a) become PCIDSS compliant (an ongoing process); and (b) complete the self-assessment for the Museum and E-Shop which had been delayed until March 2016.
- 10.10 Cash Office Operations - At the time of writing the report there has been one spot check of the Cash Office (8 June 2015) since April 2014. A spot check had, however, taken place on 11 November 2015 a day before the meeting. Members said the present frequency of spot checks was unacceptable and the Committee expected a solution to be directed by the Executive Committee. The Head of Risk & Assurance will continue to keep this action under review.
- JD
- 10.11 Collections Auditing - The Audit & Risk Committee will receive a progress report from the Registrar in February 2016. The visit to Entomology and Mineralogy following the meeting was to help demonstrate to members the issues faced by staff undertaking collections audit.

ACTION

10.12 Collections Security - The Collections Security review June 2011 recommended that Standard procedures for Scientific Visitors were put in place. A working group on Visitor Access Procedures (VAP) had been formed and it was hoped that standard procedures will be rolled out in April 2016.

11 MAJOR CORPORATE RISKS AND LONG TERM INHERENTLY HIGH RISKS 2015/16 (PAPER TAC 48/2015)

11.1 The Director presented his paper.

Major Corporate Risks

11.2 The Museum Director presented a summary table of the Major Corporate Risk templates for Quarter 2. In addition, the individual templates were presented in their entirety so the Committee could see the level of detail that went into the management of the risks. At the end of Quarter 2 seven of the ten Major Corporate Risks were assessed to have the same level of residual risk as the start of the year. There had, however, been significant actions to manage the individual risks which were expected to reduce the scores before year end. Two risks will be presented in detail at the meeting, Collection storage and Commercial income – please see sections 13 and 14.

MD/JD

11.3 The Museum Director and Head of Risk & Assurance summarised the individual templates and reviewed the scores. However, the Museum Director observed the Executive Board (EB) needed to: (a) ensure greater consistency in the scoring of risks; and (b) review the comprehensiveness of individual templates - please also see para 14.4. It was noted that following comments by the Members at the June 2015 meeting the Corporate Risk on Commercial Income had been rescored. Members were pleased to see the summary table recorded members of EB as the Risk Owners rather than the senior managers who completed the templates.

MD/JD

11.4 Members agreed that the summary table and presentations by Risk Owners provided sufficient assurance on the management of Major Corporate Risks. It was, therefore, no longer necessary for the Committee to receive the individual templates with the exception of when there was a major change to the risk profile. The Chair of the Audit & Risk Committee requested, however, that the summary table was expanded to include the key mitigation actions.

Long Term Inherently High Risks

11.5 The Committee reviewed the Assurance Framework for Long Term Inherently High Risks. These risks were a natural consequence of the nature of the organisation and the activities that it undertakes. The scores for Long Term Inherently High Risks did on occasion fluctuate. The score for damage to the collections had increased recently, for example, due to pest infestations and collection storage issues in the North-west Tower. It was observed that the review of Pest Management: (a) generally provided a reasonable assurance on the management of this aspect of the damage to the collections risk; and (b) was a good demonstration of a direct link between audit work and the Museum's risk profile.

MD/JD

11.6 Members agreed they should continue to receive the Assurance Framework - Long Term Inherently High Risks annually at the November meeting.

ACTION

12 HEAD OF SECURITY AND VISITOR ENGAGEMENT MANAGER UPDATE ON CRISIS MANAGEMENT CAPABILITIES ON-SITE AND OFF-SITE (PAPER TAC 49/2015)

- 12.1 The Head of Security and Visitor Engagement Manager presented their report.
- 12.2 Crisis Management Facilities - The Crisis Management Board approved a project to deliver a suitable onsite Crisis Management facility. A memorandum of understanding was signed between the NHM and the V&A on 21 April 2015. NHM can use the Crisis Management spaces within the V&A and the V&A Business Recovery Centre as offsite facilities. In return the V&A can use the NHM Crisis Management facilities.
- 12.3 Crisis Management Plan (CMP) - The Head of Security had updated the Museum's Crisis Management Plan (CMP) in accordance with advice. A modular structure will enable access to clearer information and provide a better framework for the plan to be updated.
- 12.4 Communications Awareness Campaign - An internal communications awareness campaign was launched on 1 June 2105. A new crisis information staff card was produced in a handy purse and wallet size. The card explained: (a) what a crisis was; (b) the important points to remember; (c) where to find information if the Museum was open and closed; and (d) gave the numbers to call to report anything suspicious. There were new posters around the Museum including the staff entrance and lifts. Four hundred calendar format emergency procedures guides were printed and distributed across the 3 Museum sites. Agreeing the text for the emergency procedures guides with key stakeholders had been a challenge.
- 12.5 It was observed that it was important that there were processes in place to enable staff to communicate they were safe in a crisis. The Head of Security was working with Technology Solutions (TS) to try to ensure the switch board had the capacity to handle the exceptional call demand this will create. It was noted that staff only shared their personal mobile phone details on a voluntary basis with their managers. Members observed staff should be encouraged to provide the Museum with mobile phone details strictly for use in an emergency. Currently, however, the Museum did not have the facilities for bulk text messaging.
- 12.6 Members reviewed the printed communication material presented and the Chair of the Audit & Risk Committee commended the clarity of the messaging. The Director of Finance & Corporate Services observed that the Head of Security and Visitor Engagement Manager had done a fantastic job with minimal involvement of his time.
- 12.7 The Visitor Engagement Manager was on secondment from Visitor Services until the testing of the onsite Crisis Management facilities had been completed. The Director of Finance & Corporate Services and the Head of Security had a good relationship with the V&A Head of Security. The Head of Security was meeting with the V&A Head of Security to discuss collaboration in testing their respective Crisis Management facilities. The Science Museum had its own independent arrangements.
- 12.8 Physical Penetration Testing - The Head of Security outlined the key findings of the day's testing. A working group will be set up to put together a coordinated response. The report and action plan will be presented to the February 2016 Audit & Risk Committee.
- 12.9 Security Threat Level - The Head of Security ensured measures were commensurate with the threat level in place. The actions may be varied by the Security team in response to the specific nature of the threat.

NG/SC

SC

ACTION

- 12.10 Knives - It was an offence without lawful authority or good reason, to have in a public place a blade. A good reason maybe cutlery for a packed lunch or a penknife less than 3 inches long. If a visitor has a reasonable excuse for the knife the Security team will temporarily retain the knife for the visitor to collect upon leaving the Museum. Illegal knives were not returned and the Police maybe called depending on the circumstances.
- 12.11 CCTV - Images from the Museum's CCTV system fall within the provisions of the Data Protection Act 1988. Images were only retained for 31 days unless they were required for evidential purposes in legal proceedings.
- 13 PRESENTATION BY THE DIRECTOR OF SCIENCE ON THE MAJOR CORPORATE RISK "WE DO NOT ADVANCE AN APPROPRIATE SOLUTION TO ONGOING COLLECTION STORAGE NEEDS SUBJECTING COLLECTIONS TO RISK OF DAMAGE/DETERIORATION AND SLOWING DOWN THE REALISATION OF PLANS FOR INCREASED PUBLIC SPACE". (PAPER TAC 50/2015)**
- 13.1 The Director of Science made his presentation on the management of the risk.
- 13.2 The Board of Trustees will also receive a presentation on 17 November 2015 at which an appropriate solution for collections storage will be discussed.
- 13.3 The Museum had 3 strategic objectives: (a) improve the environmental conditions of the collections; (b) release space for public use; and (c) use people and other resources more efficiently. Two risks needed to be addressed: (a) the need to progress offsite collections storage for Life Science collections; and (b) find suitable and affordable offsite collection storage and document delivery for the Library and Archive collections.
- 13.4 The solutions needed to ensure; (a) enough space, now and in the future; (b) there was good accessibility with less than 1 hour's travel time from South Kensington on public transport for Life Science collections and within 24 hours delivery for Library and Archive collections; (c) a freehold tenure or a long leasehold with little or zero rental obligation; and (d) the environment needed to be suitable for collections, staff, research and visitors. There were other objectives and some of the objectives were in conflict, therefore, the aim of the project was to achieve an overall benefit.
- 13.5 The Museum had attended a series of Department for Culture Media & Sport (DCMS) collections summits, submitted papers and engaged broadly with the department and ministers. The Museum and DCMS were awaiting the outcome of the Comprehensive Spending Review on 25 November 2015. A business case submission had been made to DCMS with partners for a shared-facility for the Library and Archive collections.
- 13.6 Detailed work had been undertaken to define further the costs and the Museum's requirements. The costs were estimated at c.£25m and with fit-out c.£50m. There were physical space requirements of 200,000 square feet. The Museum had also identified the timetable, timetable triggers and the collections to be moved to offsite storage
- 13.7 The Museum had liaised with a series of partners, Scientific, Cultural, Library and Archive, and Commercial to reduce the costs of the facility. The services of an excellent consultant to help in the process of developing a list of firm collections storage options had been engaged. It was noted that a commercial partner may wish to work with the Museum due to planning obligations under Section 106 of the Town and Country Planning Act. These aim to balance the pressure created by a new development with improvements to the area which make a positive contribution.
- 13.8 The Chair of the Audit & Risk Committee commended the Director of Science on the progress that had been made and thanked him for the informative presentation.

ACTION

14 PRESENTATION BY THE DIRECTOR OF PUBLIC ENGAGEMENT ON THE MAJOR CORPORATE RISK “WE DO NOT DELIVER THE PLANNED STEP CHANGE IN SELF-GENERATED INCOME GROWTH FROM COMMERCIAL ACTIVITIES” (PAPER TAC 51/2015)

- 14.1 The Director of Public Engagement made his presentation on the management of the risk.
- 14.2 Strategies – The over-arching strategies were the Public Engagement Strategy 2013 and Commercial Strategy 2014. In addition, there were individual strategies for key businesses e.g. Membership, Catering, International and Retail.
- 14.3 Business Plans - Annually business managers draw up Business Plans detailing: (a) objectives; and (b) day to day risks and medium/longer term risks which were under control or outside their control. The plans were reviewed in September by the Director of Public Engagement, Director of Finance & Corporate Services, the relevant Heads of Department and individual business managers.
- 14.4 Regular Performance Monitoring - Regular performance monitoring took place including: (a) a quarterly report to the Board of Trustees and the Audit & Risk Committee; (b) the Director of Public Engagement received a monthly report from business managers; and (c) the Director of Public Engagement meets monthly with business managers to discuss key performance indicators and identified risks. It was noted the Major Corporate Risk template for self-generated businesses was overly detailed and required simplification.
- 14.5 Business Plan Risks - The risks to Business Plans were:
- 14.6 (a) There was a lack of capital investment, however, at the October 2015 Planning Conference the Executive Board (EB) signed off a significant investment portfolio to support income generation. Capital investment in Business plans will be realised over the next 6 months to 12 months e.g. CRM, Ticketing, EPOS, Retail Warehousing and Membership.
- 14.7 (b) There was a risk of incomplete/incorrect Focalpoint financial reporting (the self-service portal by which staff process transactions and access financial data on the new Finance System). Reporting had improved, however, there was some misunderstanding from the business managers about Focalpoint business analytics. Public Engagement had, therefore, recently employed an accountant with business analysis expertise. In 6 months there should be a richer set of financial information than was currently the case.
- 14.8 (c) Over the next 18 months the Museum will address; (i) staff capability in commercial businesses and the wider Museum; (ii) infrastructure and space capacity e.g. Production workshops, Conservation, Technology Solutions; and (iii) the Temporary exhibition programme the success of which drives income generation. Exhibitions took approximately 3 years to develop and 2016/17 will be the first year of the new programme. The programme will be a success if it engaged visitors/target audiences and aided NHM brand positioning.
- 14.9 Key Inherent Risks – There were a number of key inherent risks: (a) forecasting visitor numbers due to: (i) the closure of the Hintze Hall for three months in 2017; and (ii) the fluctuations in the global economy which may deter overseas visitors currently running at c.65%; (c) businesses must keep up to date with changes in the regulatory environment e.g. the Public Sector Information Directive. Ideally this should be done centrally rather than by individual business managers; (c) keeping up with consumer expectations in terms of social/technological pace. The NHM needed to be forward thinking but not necessarily at the cutting edge.

JM

ACTION

- 14.10 Risks Still to Address - A number of complex issues were highlighted during Executive Board (EB) business planning and required further discussion by EB.
- 14.11 (a) How to reposition our communications narrative including social media. On the one hand NHM was seeking to use its science as a trusted voice of authority in the natural world. On the other businesses desired communications narrative which referenced cultural hooks e.g. the Great British Bake Off. Other Museums & Galleries were increasingly including these hooks in the narrative about their collections and retail products.
- 14.12 (b) The Museum had competing priorities and limited central resources e.g. Technology Solutions, Design, Marketing and Communications. It may therefore, be necessary to prioritise activities accessing central resources and this had not been done historically.
- 14.13 (c) The Executive Board/Senior Management had limited capacity. Increasingly international businesses and the growing number of projects needed their involvement.
- 14.14 Voice of Authority - As an arm's length body the Museum delivered government policy. On the other hand the NHM brand values as an arm's length body were to be an independent voice of authority on the natural world. The Museum was cautioned to: (a) keep within its scientific expertise in areas such as climate change; and (b) not, for example, stray into economic arguments e.g. carbon tax versus a cap-and-trade system. It was noted that Museum staff were bound by the Civil Service Code which required political impartiality. The NHM and its staff were barred from attending Party Conferences in an official capacity or using public money to lobby government. There were, however, potential challenges. Membership, for example, was currently benefits driven and to engage a wider audience there may be a need for NHM to be seen as a campaigning organisation.
- 14.15 Key Decision Points - Businesses had been subject to fundamental changes over the last 2 years in terms of the audience engaged and the offer. Each business had an individual decision point at which time performance will be reassessed. It was observed that a key decision and risk for the Museum related to the ability to raise money as opposed to other NHM priorities and objectives.
- 14.16 Currently the Museum was not achieving its full commercial potential. In the light of the self-generated income performance at the end of Quarter 3 it may be necessary at the February Board of Trustees meeting to revisit the year end forecasts. The reasons varied according to each individual business, however, following the planned capital investment an improvement was expected. There had been a lot of changes in the last 6 months with, for example, new Retail product lines. These changes should lead to improved trading figures for the remainder of the year. The Head of Public Engagement wished to see more accurate forecasting of self-generated income for 2016/17. The new business managers had significant experience, however, it was a steep learning curve working in a complex organisation.
- 14.17 The Chair of the Audit & Risk Committee thanked the Director of Public Engagement for the informative presentation.

15 ANY OTHER BUSINESS

- 15.1 There was no other business.

16. DATE OF THE NEXT MEETING

- 16.1 The next meeting will be held at 10.00 a.m. on 11 February 2016

- 17** Members paid a visit to the Entomology and Mineralogy Collections.

ACTION

KEY TO ACTION INITIALS

Kim Winser - KW

Michael Dixon - MD

Executive Board - EB

Neil Greenwood - NG

Jan Day - JD

Stuart Craik - SC

Matthew Atkinson – MA

Justin Morris - JM