



House of Commons
Committee of Public Accounts

Income generated by the museums and galleries

**Thirty-third Report of
Session 2003–04**

*Report, together with formal minutes,
oral and written evidence*

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The Committee of Public Accounts

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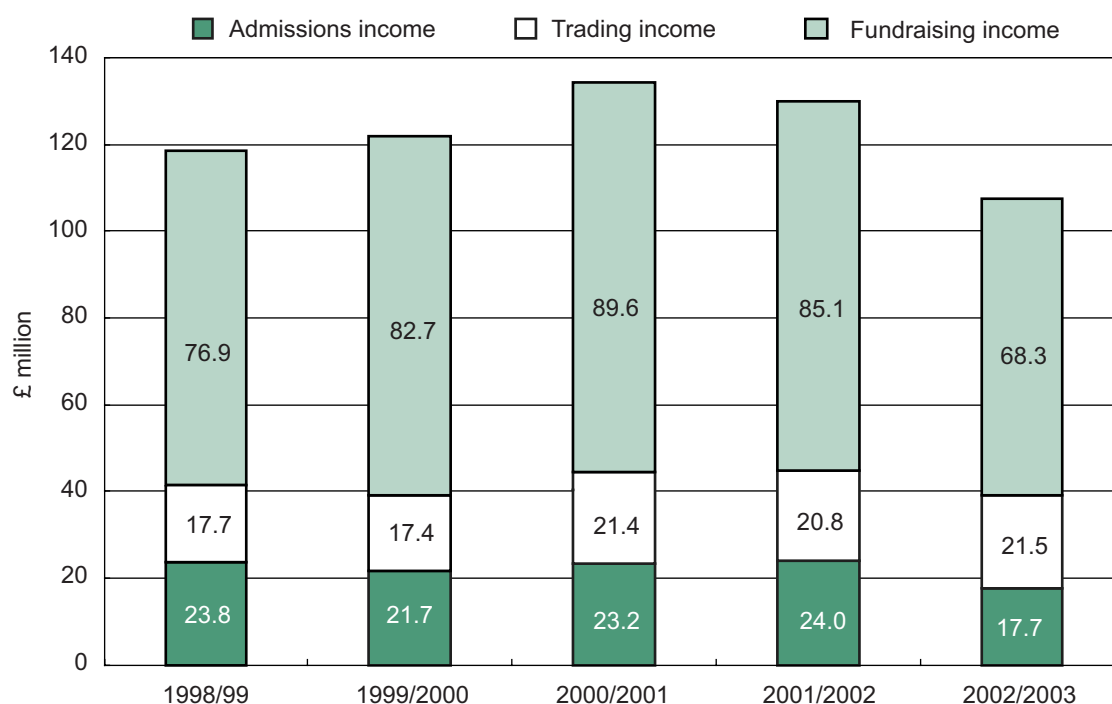
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Summary

Introduction

The 17 non-departmental public body museums and galleries sponsored by the Department for Culture, Media and Sport together received grant-in-aid of £270 million in 2002–03, and generated additional income of £108 million from fundraising, trading activities and admission charges. In the five years up to and including 2002–03 this self-generated income amounted to over £600 million (**Figure 1**). Besides its contribution to operational costs, the museums and galleries use their self-generated income to invest in developing their collections, facilities and services and to promote access through touring exhibitions, education and outreach work.¹ From their own experience as constituency MPs Committee members record with pleasure the changes museums and galleries are making which, for some, have transformed how a growing proportion of the public perceive them. One aspect of this change concerns income generation which is the subject of this Report.

Figure 1: Income generated by sponsored museums and galleries



Note 1: Income is shown at 2002–03 prices.

Note 2: Self-generated income includes income from all sources except grant-in-aid and the National Lottery and refers to the gross income from admission charges and fundraising, and the profit on trading activities.

Note 3: The decline in income since 2000–01 is mainly due to the completion of two major projects for which museums had been raising funds.

Source: National Audit Office

On the basis of a Report by the Comptroller and Auditor General, we took evidence from the Department, the Imperial War Museum and the National Maritime Museum on the scope to generate more income, creating the right conditions for income generation and balancing financial and wider objectives.²

Conclusions and recommendations

1. **The museums and galleries have achieved a credible performance in generating their own income but there is unrealised potential.** There is scope for growth across a wide range of activities including catering, shops, mail order and e-commerce. Fundraising and venue hire continue to be promising areas for income growth which usually give a high return. And there are opportunities to learn from new and innovative ways money is being made at some of the museums and galleries, and in the wider museums sector.
2. **The museums should set five year targets for income growth, with milestones, against which they and the Department can monitor progress.** Targets should be supported by plans based on a systematic review of their assets and opportunities, an appreciation of which areas are most profitable and an assessment of the risks.
3. **The museums and galleries need a better understanding of the costs they incur in generating income.** Many of the museums and galleries do not know with any accuracy what profit they make on some of their income generating activities and some have lost money. For each of their money-making activities, including those not undertaken solely for commercial reasons, they need clear objectives and financial targets, and accounting systems to measure financial performance.
4. **The Department should explore with Partnerships UK how to make investment funding for income generation schemes more accessible to museums and galleries.** Museums and galleries are heavily reliant on finding private sector partners for new business ventures, which can be difficult and time-consuming.
5. **The museums and galleries need to be more entrepreneurial.** To help identify new ideas for income generation and advise on how best to deliver them, the Department should see what can be done to draw on the knowledge and skills of experienced entrepreneurs. The Department should appoint more entrepreneurs as trustees and encourage Boards to appoint entrepreneurial Directors.
6. **The museums and galleries need to develop their skills for income generation across most of the core areas, such as retailing and fundraising.** The Department should promote greater sharing of knowledge and skills by:
 - exploring whether some smaller museums and galleries could pool staff resources and work together to generate income;
 - establishing an exchange programme between the museums and galleries; and
 - putting on a programme of events and training, for example in collaboration with the Museums Trading Association.
7. **Charging policies for special exhibitions should not exclude people on low incomes from seeing the best of what the museums and galleries offer.** Income from paying exhibitions has doubled since the introduction of free admission to the

main museum or gallery in 2001 but the Department cannot say what impact these charges are having on attendance by people from lower income groups.

8. **Museums and galleries should collect data on the socioeconomic status of visitors to paying exhibitions as well as to the museum in general.** If people on low incomes tend not to visit special exhibitions, the Department, in conjunction with the museums and galleries, should review pricing policies, in particular the use of concessions, and the targeting of audiences in the way exhibitions are promoted.

1 The scope to generate more income

1. The museums and galleries generate income from a wide range of activities and, in common with other museums and galleries at home and abroad, are involved in some innovative projects (**Figure 2**).

Figure 2: A sample of the innovative ways in which museums and galleries generate income

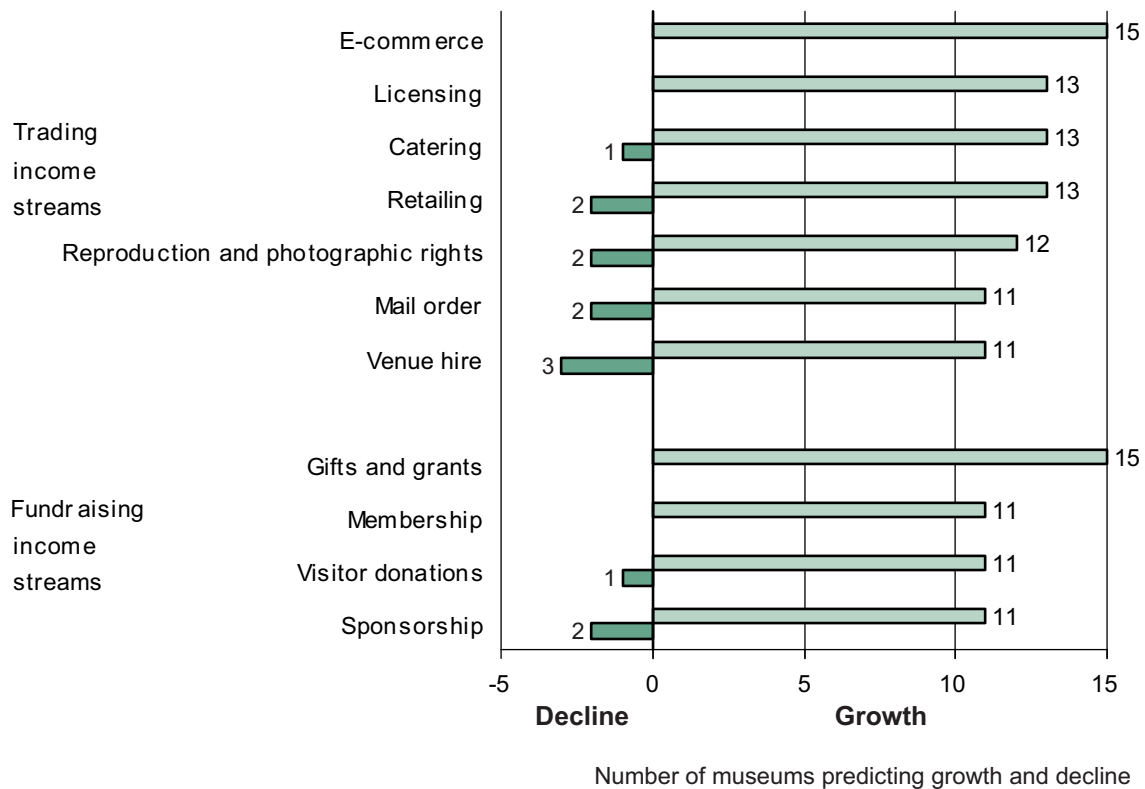
Innovative activities at the sponsored museums and galleries	Money-making ideas from elsewhere
The Imperial War Museum, building on its experience of putting on flying displays at its Duxford branch, is mounting flying displays to music ("Flying Proms").	Thackray Medical Museum, Leeds hosts a popular series of lectures on the History of Medicine which are accredited for the Continuing Professional Development of doctors and medical professionals.
National Museums Liverpool uses laser cleaning and scanning technologies to provide conservation and replication services to churches, museums and heritage organisations.	The Metropolitan Museum of Art in New York uses its web site to engage with younger audiences and to encourage membership and online donations.
The National Gallery has obtained sponsorship from Hewlett-Packard for a new Print on Demand facility to produce high-resolution posters for sale.	Southampton City Art Gallery has licensed its art conservation studios to a private sector conservator who pays an hourly fee for work carried out on works of art owned by other local museums and galleries.
The Museum of Science and Industry in Manchester has opened a virtual parachute attraction and historic train rides.	The Royal Pavilion, Brighton introduced premium price conservation tours developed for a Sunday Telegraph special offer.
Tate receives a share of the income from sales of Tate-branded paint available through B&Q stores, bringing the Tate name to potential new audiences.	The State Hermitage Museum in St Petersburg has a strategy of opening satellite venues outside Russia to promote the profile of the museum and generate income.

Source: National Audit Office

2. Although earnings have been variable in recent years, the museums and galleries are optimistic about the prospects for increasing their income over the next five years. They expect to achieve increases across a broad spectrum of activities including fundraising and a range of trading activities such as venue hire, catering, licensing of products and retailing (**Figure 3**). However, they have not quantified the scope for growth over the medium term. The museums and galleries set themselves income generation targets for the year ahead, as the Department expects them to, but some do not appear to give sufficient consideration to opportunities and risks or how targets will be achieved.³

3 C&AG's Report, paras 6, 14, 2.21; Q 5

Figure 3: Income streams from which museums and galleries expect growth over the next 5 years



Source: National Audit Office

3. In 2002–03, a few museums and galleries made losses on one or more of their income generating activities. The Department’s view was that museums and galleries would not deliberately pursue a policy which involved them losing money but that there were occasions when losses might occur, perhaps when an institution was developing its brand. However, many museums and galleries collect insufficient information on the costs of some income generating activities to establish their profitability with accuracy. Typically museums and galleries have good information on their retailing and catering activities but have a less clear grasp of the costs involved in some of their other income generating activities, particularly fundraising, publishing and venue hire.⁴

4. The Department confirmed, in line with the Comptroller and Auditor General’s Report, that fundraising and venue hire were the most promising areas for growth. The Imperial War Museum considered fundraising of paramount importance to museums and galleries and confirmed that venue hire was a major source of income at the Museum. The National Maritime Museum was making good profits from holding weddings and had full orders until the end of Summer 2005. Its corporate hire was also important because in addition to the immediate profits, some of those who attended might become sponsors of the museum.⁵

4 C&AG’s Report, paras 7, 1.10–1.11; Q 5

5 Qq 22, 25, 30

2 Creating the right conditions for income generation

5. Combined with their own ambition to improve their institutions, the prime incentive for museums and galleries to maximise their self-generated income is that they can keep the money they earn. The Department and the Treasury assured us that self-generated income was genuinely additional: there was no link between the amount of grant-in-aid provided to museums and galleries and their success in generating their own income. It is the Department's policy that it will not reduce an institution's grant-in-aid if it is successful at raising income from other sources.⁶

6. To make the most of their assets, grow their income and manage the risks associated with commercial activities, the museums and galleries need to ensure that they have the necessary attitudes, skills and understanding. Leadership, entrepreneurial culture and skills are key to successful income generation. But the museums and galleries all need to develop their skills for income generation, and most consider the development of entrepreneurial skills to be crucial, particularly at senior management levels.⁷

7. The Department wanted to develop a cadre of museum directors and chief executives with entrepreneurial skills, and was working with the Clore Leadership Foundation to develop arts leaders through a curriculum which placed financial acumen and entrepreneurial skills at its core. In future the Department would encourage boards of trustees to appoint directors with entrepreneurial skills. The degree of expertise on the boards themselves was also important, and over the past two years the Department had been seeking to address this through trustee appointments. Trustees added a lot when they had commercial experience.⁸

8. Most museums and galleries want to develop their skills in the specific business areas of retailing, licensing, publishing and fundraising, and one way of achieving this is to collaborate more. The Imperial War Museum saw two priorities: the sharing of information, and skills training and development. It saw the Museums Trading Association as a vehicle which, with greater financial resources and encouragement, could help the sector share ideas and knowledge on income generation. It also thought that the sharing of fundraising expertise might be beneficial to smaller institutions.⁹

9. In encouraging collaboration between smaller and larger museums so that smaller museums could be helped to obtain or develop the skills they needed, the Department saw its role as being a facilitator and broker, and was looking to develop its work in these areas. It was ready to facilitate greater sharing by way of exchanges and secondments, but did not want to impose the pooling of resources, which had not worked in France. It was also exploring whether a lead commercial director, either from the Office of Government

6 Qq 3–4, 30, 32, 46

7 C&AG's Report, para 9

8 Qq 2, 6, 71–72

9 C&AG's Report, Figure 10, para 2.16; Qq 14, 30

Commerce or from one of the museums and galleries, could take on the task of helping the museums and galleries share knowledge.¹⁰

10. The museums and galleries cannot borrow money freely on the financial markets because as non-departmental public bodies they are subject to government controls over public sector borrowing. Instead most of the museums and galleries use partnerships with the private sector to finance their investment in income generating activity. While partnership provides a way to access funds, it can be difficult to attract suitable partners, can lead to lower returns and is more complex than borrowing. Eight museums, mainly larger ones, see their inability to borrow as a constraint on their ability to generate income. The Imperial War Museum wanted to digitise its film and photograph archives to provide a new source of income but needed capital to do it, and the National Maritime Museum lacked capital to invest in its shop.¹¹

10 Qq 7, 10–13

11 C&AG's Report, paras 2.24, 2.26; Qq 9, 43, 62

3 Balancing financial and wider objectives

11. Asked whether there were tensions between the desire to generate income and other objectives, the Department saw no conflict between culture and commerce provided the means employed to generate income was within the ethos of the museum. The Imperial War Museum and the National Maritime Museum confirmed that there was often synergy between commercial opportunities and what the museums stood for. Sponsorship deals or commercial partnerships, for example, allowed museums to increase and broaden their audiences through reducing the financial risk involved in putting on special exhibitions, publishing catalogues and digitising their collections.¹²

12. As to whether dependence on external financial support could lead to a narrowing of the range of offerings because of the need to attract sponsorship, the Department affirmed that public funding should allow museums and galleries to offer the public the shows they intended. The National Maritime Museum, for example, had gone ahead with an exhibition about tattooing despite being unable to attract a sponsor.¹³

13. We asked whether there was also potential for conflict between making money out of the intellectual property rights bound up in museums' collections, and the public's access for research purposes, particularly given the move towards exploitation of the collections through e-commerce. While recognising there was an issue, the Imperial War Museum considered that it was in the public interest to harness the resources of the commercial sector to provide, through digitisation and the worldwide web, the broadest possible access to the collections and to derive an income stream to support their preservation. The Department said it would act if there were any exploitation of the taxpayer, but such a situation had not arisen so far.¹⁴

14. Since the introduction of free admission in 2001, some museums which used to charge at the door had been experimenting with paid-for exhibitions as a way to support their exhibition programme. Such income had doubled since 2001 from £7 million to £14 million. We asked whether charging for special exhibitions was deterring the public, and in particular people on low incomes, from visiting exhibitions. The Department was unable to provide a socio-economic breakdown of those attending paying exhibitions because, although it collected data about visitors to a museum or gallery as a whole, it did not currently collect information about those who paid to see special exhibitions.¹⁵

15. The Imperial War Museum thought it might have made a mistake in charging for admission to its exhibition on *Women at War* because many who came hoping to see it were disappointed to find that there was a £7 entrance fee (£5 concessionary rate). Only 11% of the Museum's visitors saw the exhibition, although it had not detected any social bias amongst those who had paid. The National Maritime Museum told us it had boosted

12 Qq 5, 15, 42–43, 62, 67

13 Qq 45–46

14 Q 43

15 C&AG's Report, para 1.13; Qq 49, 59

attendance from lower income groups to its *Elizabeth* exhibition by free entry on less popular days and other concessions advertised in its local area.¹⁶

16 Qq 42, 47-48, 53

Formal minutes

Monday 14 June 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan
Mr Richard Bacon
Mr David Curry
Mr Frank Field

Mr Gerry Steinberg
Jon Trickett
Mr Alan Williams

The Committee deliberated.

Draft Report (Income generated by the museums and galleries), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 15 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read.

Amendment proposed, in line 10, after "work", add "From their own experience as constituency MPs Committee members record with pleasure the changes museums and galleries are making which, for some, have transformed how a growing proportion of the public perceive them. One aspect of this change concerns income generation which is the subject of this Report."—(*Mr Field*)

Question proposed, that the Amendment be made.

Proposed Amendment made.

Resolved, That the Report, as amended, be the Thirty-third Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

Adjourned until Wednesday 16 June at 3.30 pm

Witnesses

Monday 8 March 2004

Page

Sue Street, Department for Culture, Media and Sport, **Mr Robert Crawford CBE**, Imperial War Museum, and **Rear Admiral Roy Clare**, National Maritime Museum

Ev 1

List of written evidence

National Museum of Science and Industry

Ev 14

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Second Report	The new electricity trading arrangements in England and Wales	HC 63 (<i>Cm 6130</i>)
Third Report	The Sheep Annual Premium Scheme	HC 64 (<i>Cm 6136</i>)
Fourth Report	Improving service delivery: the Forensic Science Service	HC 137 (<i>Cm 6155</i>)
Fifth Report	Warm Front: helping to combat fuel poverty	HC 206 (<i>Cm 6175</i>)
Sixth Report	Department of Trade and Industry: Regional Grants in England	HC 207 (<i>Cm 6155</i>)
Seventh Report	Progress on 15 major capital projects funded by Arts Council England	HC 253 (<i>Cm 6155</i>)
Eighth Report	The English national stadium project at Wembley	HC 254 (<i>Cm 6155</i>)
Ninth Report	Review of grants made to the National Coalition of Anti-Deportation Campaigns	HC 305 (<i>Cm 6175</i>)
Tenth Report	Purchasing and managing software licences	HC 306 (<i>Cm 6175</i>)
Eleventh Report	Helping consumers benefit from competition in telecommunications	HC 405 (<i>Cm 6191</i>)
Twelfth Report	Getting it right, putting it right: Improving decision-making and appeals in social security benefits	HC 406 (<i>Cm 6191</i>)
Thirteenth Report	Excess Votes 2002–03	HC 407 (<i>N/A</i>)
Fourteenth Report	Inland Revenue: Tax Credits	HC 89
Fifteenth Report	Procurement of vaccines by the Department of Health	HC 429
Sixteenth Report	Progress in improving the medical assessment of incapacity and disability benefits	HC 120 (<i>Cm 6191</i>)
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Nineteenth Report	Making a difference: Performance of maintained secondary schools in England	HC 104
Twentieth Report	Improving service delivery: the Veterans Agency	HC 551
Twenty-first Report	Housing the homeless	HC 559
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Twenty-third Report	Government Communications Headquarters (GCHQ): New Accommodation Programme	HC 65
Twenty-fourth Report	Transforming the performance of HM Customs and Excise through electronic service delivery	HC 138
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Twenty-seventh Report	Identifying and tracking livestock in England	HC 326
Twenty-eighth Report	Driver and Vehicle Licensing Agency: Trust Statement Report 2002–03	HC 336
Twenty-ninth Report	Improving public services for older people	HC 626

Thirtieth Report	Out of sight—not out of mind: Ofwat and the public sewer network in England and Wales	HC 463
Thirty-first Report	Cambridge-MIT Institute	HC 502
Thirty-second Report	HM Customs and Excise Standard Report	HC 284
Thirty-third Report	Income generated by the museums and galleries	HC 430

The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

Oral evidence

Taken before the Committee of Public Accounts

on Monday 8 March 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan
Jon Cruddas

Mr Ian Davidson
Mr Gerry Steinberg

Sir John Bourn KCB, Comptroller and Auditor General, further examined.

Mr Brian Glicksman, Treasury Officer of Accounts, HM Treasury, further examined.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

Income generated by the Museums and Galleries (HC 235)

Witnesses: **Sue Street**, Permanent Secretary, Department for Culture, Media and Sport, **Mr Robert Crawford CBE**, Director General, Imperial War Museum and Chairman of the National Museum Directors' Conference and **Rear Admiral Roy Clare**, Director, National Maritime Museum, examined.

Q1 Chairman: Good afternoon, welcome to the Committee of Public Accounts. Today we are looking at the Comptroller and Auditor General's Report which deals with the Income Generated by Museums and Galleries. We welcome back to our Committee, Sue Street, who is Permanent Secretary at the Department for Culture, Media and Sport, Robert Crawford, who is the Director of the Imperial War Museum, and Roy Clare, who is the Director of the National Maritime Museum. You are all very welcome to the Committee of Public Accounts. Thank you for coming. Could I please start by asking you to refer to Figure 2 which you will find on page 8, which is a good way of beginning as it looks at the figures which all these museums are achieving. We see that about a quarter of self-generated income comes from the Tate. Does this reflect rather badly on the others?

Ms Street: I do not think so, Chairman, although I would say that the Tate is an exemplar of good practice in this area and it has built a very fine brand. I think paragraph 1.2 on the previous page says very fairly that there are inherent differences between museums and galleries which affect their income generation potential, and this table is not supposed to be a league table. However, we did analyse from these figures the proportion of total income for museums which they are able to generate. The Tate is huge and it generates a lot of cash but about 48% of its total income it generates itself. Sir John Soane is very small but generates about 54% of its total income itself and, for example, the Museum of Science and Industry in Manchester generates about 53% of its total income. We are looking also at a one-year snapshot, and over a period of three years we have seen some very creditable performances including from the museums represented by my colleagues here. So we have more we can do but a pretty creditable performance by many of the different sizes of businesses represented here.

Q2 Chairman: It just seems so mixed. I was going to mention Sir John Soane which does incredibly well, it is a tiny museum, really a townhouse in London,

only 86,000 visitors but generating £826,000. Then we have the Tate, which we have mentioned, which does very well. You have the National Gallery which is comparable to the Tate with over 4 million visitors but raising £9 million compared to the Tate's £25 million. Actually the Tate and the National Gallery raise less than the Imperial War Museum, which we have represented here, so it does seem to be a very mixed picture. Does the success of these museums in this particular field depend on the personality of the director, that he or she is just committed to this?

Ms Street: The director has a huge influence but there are a number of other factors. One is certainly the location where some are bound to struggle more than others to attract tourists and other visitors with more disposable income. Another, and it is one we have paid a lot of attention to, is the degree of expertise on the board, and I do think the trustees add a tremendous amount where they have the commercial expertise. But we are looking as we appoint new chief executives and directors to enhance business expertise. I do not think it is solely to do with them.

Q3 Chairman: Certainly the National Gallery is not in a particularly bad location as far as tourists are concerned. I know that paragraph 1.1 says that it is the Department's policy not to reduce an institution's grant-in-aid if it is successful at generating its own income. That is the whole point of what you do. Perhaps I can refer this to the Treasury Officer of Accounts. Surely when somebody in the Treasury looks at how successful the Tate is in self-generating income, is that not rather an incentive for someone in the Treasury to at some stage in the future be tempted to reduce their grant-in-aid?

Mr Glicksman: The Government published a document called *The Wider Markets Initiative* a few years ago which encouraged departments and NDPBs, and these museums are classified as NDPBs, to take advantage of their assets and their

 Department for Culture, Media and Sport, Imperial War Museum and National Maritime Museum

skills to generate income. One of the incentives the Government set out in that document was that they would be entitled to keep the income that they generated, with a need to consult the Treasury if it gets above a certain level but even there we are not suggesting that would be in order for the money to be clawed back. The Government's view is if you want to encourage organisations to generate income, you have to provide them with the incentive.

Q4 Chairman: I knew you would say that and I am not going to get any more out of you, but we will see what happens in the future. What incentives, Ms Street, are there for museums and galleries to achieve more through self-generation of income?

Ms Street: I think my colleagues will tell you they are bursting to achieve more, they have very long ambitions, and I do not know of a museum or gallery—in fact the Report states very clearly that every body which was looked at has a plan to generate more and is absolutely keen to do so. As we have just discussed, the prime incentive is that they can keep the money and that is really how you incentivise. In France where there is a general trading company all the generated income goes into a pot and is redistributed, with those who have failed getting more. That may be very equitable but that is not an incentive. So I think that is the prime incentive, together with of course plaudits and a kind of rewarding excellence policy.

Q5 Chairman: Could you please look at Figure 5 on page 11? Why do some museums and galleries engage in activities which actually lose money?

Ms Street: Obviously a healthy business is a business in profit but these are quite mixed businesses. Many members of this Committee will know that when you are running a large business you have some loss-making areas in order to develop the whole brand. I do not think that there is any museum or gallery which would be deliberately pursuing a loss but, for example, I talked to the National Gallery about the publication of their catalogues where they do not make money but they underwrite that with a sponsor who wants to enable the gallery to make this contribution to scholarship and research, so it is part of their brand that they publish very excellent catalogues and they have a sponsor to underwrite it. So there are some areas which are more challenging than others and I would expect museums and galleries to look at the whole picture, set their targets very clearly, meet those targets by allowing some flexibility in order to make sure they are offering an experience visitors want.

Q6 Chairman: Can you please look at page 21 and Figure 11, "Where museums need to develop their skills". What has been done by your Department to encourage business and entrepreneurial skills in museums?

Ms Street: Perhaps I could first pay tribute to the work that Roy Clare has done in the Working Party on Leadership, and you may want him to contribute. Overall, we all see this as a challenge. We need to develop a cadre of museum directors and chief

executives and of course boards with the entrepreneurial skills. What have we done? In the two years since I took up this post we have put 20 trustees on the boards across the bodies with the right experience and they have made a big difference. We have worked with the new Clore Leadership Foundation, which is going to run fellowships for the arts leaders of the future. I have drawn their attention to this Report, they have explicitly said I could give the Committee their assurance they will be putting financial acumen and entrepreneurial skills at the core of their curriculum, so that is building for the next generation. We really are overloading on seminars and documents. I could go through them all but to pick out specifically, last month there was a very useful seminar with Partnerships UK on the *Wider Markets Initiative*, and in May a seminar with the chairs of the Audit Commissions of the museums and galleries looking at how they really assess risk and reward, which is always, when you are starting into a venture, what degree of risk for what degree of reward and that is something we need to calculate very carefully. We also are very grateful to the NAO for offering to lead a seminar later in the year on this. We want to create the conditions for success, we want to enable the museums and galleries who are bursting to do this to do this better, and we need to do that through a mixture of development, training and very rigorous business planning and business management processes.

Q7 Chairman: Some members of the Committee had a very interesting visit to the Wallace Collection last Wednesday, which is of course a smaller collection. It is actually dealt with in Box 8 on page 23. What that says and what the director, Miss Savill, told us was that she felt more could be done by way of collaboration, which your Department should encourage, between the smaller collections and the larger collections so they could be helped with the kind of skills they need to run museum shops and that sort of venture which they may not have in-house.

Ms Street: We are definitely in listening mode. I have been discussing with the Office of Government Commerce whether there might be a commercial director type figure who could help the museums and galleries from that centre of expertise. We broker quite a lot of bilateral help, including between the Wallace and the Tate and the Horniman and the Museum of London. I think it is incumbent upon us to do what the museums would like us to do but also to impose a very rigorous risk management discipline. But we definitely, through the Funding Agreement discussions, will be asking for the museums and galleries what more would be helpful. On the whole, some of the tailored partnerships are of more practical use than an endless conference season, but we will take advice. I think the publication that we put out on e-commerce, which is a very promising area, was genuinely useful and continues to prove its worth.

 Department for Culture, Media and Sport, Imperial War Museum and National Maritime Museum

Q8 Chairman: Mr Crawford, you have had to finance the Churchill Project, have you not?

Mr Crawford: Indeed.

Q9 Chairman: Museums and galleries are not allowed to borrow, are they, for these projects? Tell us a bit about what you did in terms of raising money to invest?

Mr Crawford: This project was a project which needed to be carried through very rapidly because the window of opportunity to occupy and convert an additional part of the Cabinet War Rooms beneath the Treasury was very short-lived whilst the Treasury's public-private partnerships refurbishment scheme was in hand. It was too short a time for me to raise money in the usual way, through private trusts and foundations and so forth, and it was also necessary that the work should be undertaken by the contractors working for the same developer as was employed on the Treasury refurbishment. We looked at a range of alternatives and the scheme which we secured permission for is essentially a PPP landlord and tenant agreement; the landlord is a private sector developer who has been responsible for the refurbishment of the Treasury, has financed at his capital risk the refurbishment works in the Cabinet War Rooms necessary to open it to the public and we pay an enhanced rental over a 29 year period of years.

Chairman: Thank you. I have some other questions but I will leave it for the time being and ask Mr Cruddas to come in.

Q10 Jon Cruddas: When I read this Report what came out for me was that the NAO had picked up quite a lot of concerns amongst the museums that the current formal and informal networks were not necessarily sufficient in terms of expertise and following best practice and the like. If you look at page 22, paragraphs 2.15, 2.16 and 2.17, apart from the current networks which do exist as listed in 2.16 "... the majority of museums and galleries would like to see a greater degree of collaboration and knowledge-sharing between them and suggest the Department could ..." and then they list a number of further networks or services. Does the Department have a response to that? The next question is, is there an opportunity for a new body, as it were, as an intermediary institution between the 17 different museums and galleries and the Department itself in terms of best practice, models of economic efficient, revenue raising and the like which could be appropriate?

Ms Street: I should say right away that Robert Crawford in his capacity as chairing the National Museum Directors' Conference might say more about the very many networking organisations there are already, so subject to the Committee's views I would not immediately rush to create yet another one. I think it is important we build on the role we have begun to develop as a broker. The science seminar, for example, was a new venture for us and seemed to be well-received. We also need to husband our resources. We are a very tiny department and in the end I am responsible for how money is spent, not

how it is made, but I do think we should very much be in a facilitation role and, as I say, we are doing a great deal more already and we have a great deal planned and we stand ready to develop these services. I think it would be right to say, because I have heard this from museum directors themselves, that when they look at particular benefactors or sponsors that is a very sensitive list. I think it would be very difficult to suddenly say, "We are going to put on the web some guide on how to raise money from individuals." I have spoken to sponsors and benefactors as well including the US, and I do not think they would welcome that, so we need to look carefully at where it is we can best support them.

Q11 Jon Cruddas: I will take that slightly further. On page 5, paragraph 15, "Concluding comments and recommendations", it says, "They also need to capitalise on the knowledge and experience available in the sector and find more effective ways of harnessing this." Further down, this "... suggests that there may be scope to take collaboration beyond the sharing of information and into the pooling of some key resources." Does the Department have a response to that, and then maybe Mr Crawford and Rear Admiral Clare might want to comment on that?

Ms Street: I certainly am very interested in the idea, but it is no more than an idea at the moment, for a lead commercial director looking at where commerce expertise is really well developed either from the NGC or from within our family of bodies, so there could be a sharing of how to do things even though the "what" will be different for each business. I do think that we need to do more, and we are doing this in May, with the chairs of the Audit Committees so they look at how they calculate and manage risk. Pooling resources in terms of actual cash I think has to be driven by the museums themselves, so we see a very good example where the Wallace is contracting with the Tate for the on-line ticketing for the forthcoming exhibition, and the Horniman is putting its shop to contract with the Museum of London, and these are good practical examples of where resources are combined with good effect.

Q12 Jon Cruddas: That is on a more *ad hoc* basis than what could be inferred from this. For example, the fifth recommendation from the NAO on page 6 on the question of pooling resources says, "... a structured programme of staff exchanges within, and to organisations outside, the museums and galleries sector; greater use of external training; and the scope for some smaller organisations to set up a joint trading subsidiary." The point being there seems to be a theme in this whole Report towards the use of resources and knowledge to achieve some sort of generic knowledge that can be utilised to the benefit of all of them, especially smaller museums and galleries.

Ms Street: There is absolutely no counter-policy. You will want to ask colleagues but I look very broadly at these businesses, a bit like the CBI, there is an element of healthy competition between them

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which is essential because you cannot get the family to two museums at the same hour on the same day, so that has to be respected. But, respecting that, there is a lot which goes on already in exchanges and secondments but we would be ready certainly to facilitate more of this. For the record, we do not disagree with any of the recommendations in this Report, we just need to work with the bodies to make it more suitable for them.

Q13 Jon Cruddas: Your emphasis is slightly different from theirs, would you not agree, in terms of this question?

Ms Street: I do not want to impose the pooling of resources on businesses. We see in France, where they have done that, they are moving away from it.

Q14 Jon Cruddas: Do your colleagues want to say something on that?

Mr Crawford: I think the two priorities are for sharing of information and awareness of technique, and for training and the development of skills. Both those are functions where the network of national museums and indeed museums of other kinds—we exist in a larger sector—can be usefully deployed. I would advocate however not to reinvent wheels which already exist. There is, and it is mentioned I think in paragraph 2.16, the Museums Trading Association which has existed for 25 years—1978 I think it was established as a sub-set of the Museums Association. I know that its members, who are the professionals engaged in trading activity in the sector, would welcome both financial resource and encouragement to reinforce the work they do. As for pooling resources for the business of raising money, I am less certain about that myself. We are essentially talking about commerce, and commerce is about competition, and there what I think the institutions need are the powers, the freedoms, the encouragement, the skills certainly particularly to develop partnerships possibly amongst themselves, the smaller institutions in particular, but certainly with the private sector, and that is the direction in which many of us are seeking to develop new income generating schemes. I would be very cautious, indeed I think somewhat sceptical, about the establishment of some sort of intermediate, monolithic, bureaucratic body because that is essentially anti-competitive and anti-commercial, and what has nourished the success of the revenue-generation efforts in national museums and galleries over the last 15 years has been the freedom to get out and get on with it and to benefit from the results of our efforts.

Rear Admiral Clare: Can I add one point which is that the museums have been working together on training and personal development. We have done a survey across the sector which shows we are investing more than is average in Britain for training and development, and this is particularly advantageous in terms of leadership in the sector. We have been working to ensure the lessons and the learning from each other are transmitted across the sector. The expertise and capacity for work in these areas is very important and fundamental.

Q15 Jon Cruddas: Can I ask a final question which is completely different from the ones I have just asked. Do you think, Ms Street, that this emphasis on the fund-raising and pulling in revenue in any way conflicts with the general objectives behind the museum and galleries system in terms of increasing access, outreach work and education?

Ms Street: Some people do talk about the conflict between culture and commerce. I do not see it that way at all; colleagues will have views. I think what we have seen, providing we can maintain grant-in-aid and we are not providing any kind of perverse incentive, is a great deal more outreach and success, because for a lot of sponsors and a lot of the big benefactors that is why they are giving the money, they are giving the money so you can go and see the *Weather Project* in the Turbine Hall at Tate Modern.

Q16 Jon Cruddas: Whilst admission fees have declined, special admission fees have increased for certain exhibitions, which implies a sort of segmentation in that sense between an elite and the masses, if you like.

Ms Street: Free access has been a flagship policy of the Government and we have seen about 70% more visitors since it was brought in in December 2001.

Q17 Mr Allan: What was that figure? 17 or 70?

Ms Street: 72% precisely, around 70%. What happens is more people come and more people then go to the special exhibitions.

Q18 Jon Cruddas: It is the same people, in the main, is it?

Ms Street: Many of them are drawn in. The average cost of a special exhibition is around £8 although it varies quite a lot. What we are seeing is people come in because it is free and then some of them choose to spend their money there to see really world collections which they could not possibly travel to see. So it seems to me to have a beneficial effect all-round and of course the spend in the cafés and restaurants and shops goes up.

Jon Cruddas: Thank you very much.

Q19 Mr Steinberg: I have to say, Ms Street, I am not really a great visitor to museums, I get bored very quickly. I think I am described as a philistine. I would much prefer to go to a football match. Incidentally, you are a very important person, are you not? You are the Permanent Secretary in Culture, Media and Sport, do you think you could get me a Cup Final ticket?

Ms Street: I had better not say anything on the record!

Q20 Mr Steinberg: After Sunday it seems Sunderland are going to get there and I would be grateful if you could get me a ticket. We will keep in touch.

Ms Street: It is a wonderful stadium, is it not?

Mr Steinberg: I do not know, I have never been. I could do an official visit while I am there!

Chairman: Just be polite for now.

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Q21 Mr Steinberg: I will be very polite. I once went to the Tate Museum, my son insisted I should go, and I have to say I was far from impressed from what I saw. However, I went to the Wallace Museum with the Chairman last week and it was quite impressive, particularly the pornography, I enjoyed that, and Mr Boucher. So I am going back there with a camera. Clearly they have made a great effort to generate income and if you look at page 8, Figure 2, you can see they only get 220,000 visitors a year and they generated over half a million pounds in presumably donations and functions. That is pretty good, bearing in mind the number of visitors they get there. How can these museums do better? What would you suggest they do? Do you see that as your role, to suggest they do things? Do you think they should do it themselves and get on with it or do they need a helping hand?

Ms Street: Can I say first that I am sure we could find a museum or gallery with an exhibition which would interest you. If it is sport, go to the Science Museum where they have a fantastic sports exhibition on at the moment. I am sure we could find something.

Q22 Mr Steinberg: Would that be after I have the ticket?

Ms Street: Secondly, I think the Report is right in looking to fund-raising and venue hire as the most promising areas, although we should always make plenty of room for innovation, and there are some really exciting new things being done, not least by the Imperial War Museum and others. The Wallace's venue hire is perhaps the most interesting for the future because of where it is located and what it is doing and what more it could do. I believe that our role, as colleagues have said, is to stimulate, to get the expertise on to the boards, to make sure that directors and chief executives are in a mood to take on the ideas, to manage the risks because for every new business venture there is a risk which will bring me back to this Committee, and to give people really the confidence to try and mitigate risks and make more money for themselves and of course spread good practice.

Q23 Mr Steinberg: I am pleased Mr Bacon is not here because he will probably shudder at this thought, but what is your idea about management consultants, people like that, going in who are experts in that sort of field and giving advice? Do you think they should turn to people like that?

Ms Street: I used to be a management consultant so I had better not be too rude about them. I think you have to be an intelligent customer of consultants and I believe with more expertise on the boards, which we are trying to provide, they will be very well placed to judge when it would be useful to have consultancy in. But good business practice normally includes external help for specific deliverables.

Q24 Mr Steinberg: You mentioned about venue hire, and if I had time I was going to discuss that, but I think will move to that straightaway, because one of the most profitable fund-raising activities that the Wallace said they had was actually venue hire, and

whether you like museums or not, the fact is that they are usually in grand surroundings and do have huge amounts of space. Indeed, did they not say that FIFA had a dinner there recently, and they made a lot of money out of that. I cannot imagine FIFA going to a museum; I would be surprised if they could understand what was going on in a museum, but clearly there is a market for this. How much is that exploited by all the museums?

Ms Street: I genuinely think this Report will help, because it illustrates very clearly that fund raising and venue hire are the biggest potential.

Q25 Mr Steinberg: What about the Imperial War Museum?

Rear Admiral Clare: May I comment on this? It may be helpful. We initiated a revenue stream two years ago, which was weddings within the Queen's House in the central complex in Greenwich, and it was a business venture, and we were hoping to make a profit. I am delighted to report that we have made a good profit and we have orders full until the end of next summer. I think that is an indicator that there is a whole revenue stream that we were not tapping before. It required simply the registration of the room as a place to hold weddings. We also make a great deal of money—and I expect the Imperial War Museum do as well—from corporate hire, which, apart from people having a very good party in, as you say, very good surroundings, it also brings reputational added value because in some cases some of those who come then become sponsors of ours, so there is an indirect fund-raising connection.

Q26 Mr Steinberg: I wish I had had my marriage—my wedding—in the Maritime Museum. What about the War Museum?

Mr Crawford: I can confirm that absolutely, that for all five branches of the Imperial War Museum, venue hire is a major income stream. It is an income stream which, as Rear Admiral Clare says, both utilises the physical asset at a time when this is otherwise commercially dormant, and brings in an audience which almost certainly is new, to a significant proportion, to the institution. The activities range in scale from board meetings of City companies in the Admiral's quarters in HMS Belfast through to, for example, Helitech, which is the bi-annual defence industry helicopter show—an international show that brings entrepreneurs from all over the world to Imperial War Museum Duxford. Then at the charitable end, for example, at IWM North, Trafford and Greater Manchester, at the end of next month over 1,000 evacuees who are members of the Evacuees' Reunion Association, formed a few years ago, will be having their conference and meeting and so forth there. I should just mention, if I may, as a small commercial, The Greater Game, Sport and War, our special exhibition at IWM North in the summer of this year. That might appeal to you.

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Q27 Mr Steinberg: Can you get me a ticket?

Mr Crawford: It is free.

Q28 Mr Steinberg: Presumably, Ms Street, you are in the ideal position to be able to generate income in terms of conferences and so on. Do you ever produce a booklet or a leaflet which you send out worldwide, I suppose, to say “We have these facilities in certain museums that could be used for”—is it corporate—?

Ms Street: I will just invite Roy Clare to say something in a moment, if I may, but we do an enormous amount through tourism, so *Visit Britain* is the portal for saying all the reasons why you would want to come to this country, and there will be special events. You saw probably the best of it around the Golden Jubilee time, when there was a big celebration. So, yes, we need to do it in the appropriate way. As I say, museums and galleries make a big contribution to the economy, something which I think is not always recognised, by attracting just under 10 million visitors a year on our calculations.

Rear Admiral Clare: We do have a corporate hospitality brochure which we mail out every year and update, but we have also partnered with *Visit Britain*, with the help of DCMS, for 2005, which is the Year of the Sea, around the Nelson bi-centenary, which occurs next year. *Visit Britain* will clearly see this, with us, as an opportunity to encourage in-tourism and tourism within Britain. Around the coast, in all parts of the United Kingdom, there has been a very warm reception called SeaBritain 2005. It is an example of the way in which we can stimulate both tourism and corporate revenue earnings that will follow from it.

Q29 Mr Steinberg: Finally, I think, one of the questions that I asked the Wallace, to the director there, was basically do they pool ideas with other museums? She did not give a very satisfactory response to that, I do not think. I think basically what you are saying is it would be a good idea for all museums to do it. Should there not be a system where all ideas are pooled?

Rear Admiral Clare: I think, to be fair, museums do pool ideas, right across the UK. We are not constrained just to England, and the Nationals certainly see themselves as working within the United Kingdom as a whole. It is also worth saying that the DTI offer SMEs a service through Business Skills and that is open to all museums if they want to have entrepreneurial advice, including the preparation of business plans, for example. We partner, and I am sure Robert does too, with museums that would like help and assistance, museums outside London, museums the length and breadth of the country. We have recently helped half a dozen in various corners of the UK in various ways with either revenue generation or with displays and exhibitions, which often amount to the same thing in their turn.

Q30 Mr Steinberg: May I just ask a final question. How important do you regard this fund raising, because if you look at this Report—I cannot

remember exactly where it is, because it has just come to mind now—on some of the questions that were asked of the skills and management, *et cetera*, I think half of the museums did not really regard fund raising—although they regarded it as important, it was the least important. I mentioned universities before, and I will ask again. Universities nowadays have a specific fund-raiser, do they not? Who would have thought that, years ago? What are the reasons why, for example, you could not have specific fund-raisers working for the museums and even pooling their expertise and working for more than one museum? That is the end of the question.

Ms Street: I think I would just say briefly that the Report does acknowledge that every single museum has a plan for fund-raising, with responsibilities allocated to a member of the top team. I think that is in paragraphs 2.21 and 2.22. They say rather more cautiously at paragraph 12.ii that most plans are good, and there is clearly a challenge for us, and we will rise this, to enable museums and galleries to share their expertise and bring everyone up to the level of the best. I think the judgement is not to stop the kind of entrepreneurial flourishing that we are seeing by imposing lots of things, but genuinely to enable, to promote, and to spread best practice, and we will do more of that.

Mr Crawford: I would like to underline that, because income generation and fund raising have been absolutely crucial to the transformation and regeneration of the national museums over the last 15 years, and it dates particularly from the point at which we were incentivised, going back to your first question, Chairman, by being able to retain all that we raised. As for fund raising, the larger institutions will have sophisticated and quite substantial, in many cases, fund-raising functions, with professional development directors and large teams. Smaller institutions of course may find that more taxing, and some sharing of expertise might indeed be beneficial; but the importance of the activity is right at the top of the list, and I would not want members of the Committee to feel that it was anything other than chief officers’ principal preoccupation.

Chairman: Thank you. Richard Allan?

Q31 Mr Allan: Can I start, Ms Street, by asking about the relationship, as the Chairman started with at the beginning, between grant-in-aid and self-generated income, really to explore the incentives. We saw it in table 2. I am curious to know how the grant-in-aid procedure works. When they are allocated grant-in-aid, is that over the three-year spending review period that they are given the money?

Ms Street: Yes, it is. The spending review period is tied to funding agreements where the Department sets out what it needs to have delivered for the money that it is giving. We have recently—and you may want to ask colleagues’ views on this—but in the last spending review—and I drove this, really—decided to concentrate much more on outcomes, to

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make clear what we wanted to happen, and to get out of micro-management and to help it happen. Equally we need to answer to you and others for the control of public expenditure and to make sure that we get what the taxpayer is paying for. So the grant-in-aid is set at the time of the spending review, through the three-year funding agreement, in rather less detailed terms than before, but with agreed performance measurements, and so forth.

Q32 Mr Allan: And there is genuine additionality in the self-generated income? You are setting up grant-in-aid obviously with a view to the overall finance of the museums, but you are consciously doing it in a way that says if the museums over that three-year period gain more money, they are not going to lose out the next time the grant-in-aid round comes around?

Ms Street: I think, absolutely, going back to the first question, that is the incentive, that they can keep the money they generate. We could have a whole battery of other incentives, but if we took that one away I think the thing would falter.

Q33 Mr Allan: And lottery money is also excluded from that?

Ms Street: Yes.

Q34 Mr Allan: Obviously a lot of the funding that comes in is lottery money. You are not saying “You got lucky with the lottery, you got five million quid there, so you don’t need so much grant-in-aid”?

Ms Street: No.

Q35 Mr Allan: That is absolutely clear?

Ms Street: Yes.

Q36 Mr Allan: So it is your objectives you are setting, and you are giving the grant-in-aid to achieve those objectives?

Ms Street: Yes. The Secretary of State has full strategic objectives. Over and above the grant-in-aid, for example with the port cities at the moment, we can use some money to commission—we commissioned the National Maritime Museum to do some extra work with some extra money which moves across in a themed way; but essentially we are looking to bring back to the Secretary of State outcomes for her main strategic priorities.

Q37 Mr Allan: A lot of it is historic spend, and these museums and national museums have been going a very, very long time, so in a way forward budgeting for the core funding could be seen as quite straightforward; but when we come to new ventures it is a lot more problematic, is it not? I am just wondering—something like the Royal Armouries which you have got listed here—the self-generated income of £515,000 in table 2 on page 8, that must be hugely down on the business plan that was put forward, because Royal Armouries have had problems, acknowledged problems, in terms of bringing money in. Does that mean that you then need to go and find some extra grant-in-aid when that kind of thing happens?

Ms Street: No; we do not bail out failed business ventures. The Royal Armouries in the end—it was a very, very difficult position, but the position now is that where money is raised it goes to paying back the debt, and the risk remains with the private sector. We have, though, a new direction in the Royal Armouries, with a chief executive who does have business experience, and trading income is up by 78% and visitor numbers are up by 72%, so I think it is turning the corner. We do not bail out loss-making businesses, and the British Museum is a good example of really excellent management in having to cut back and fix their own difficulties, which they have done.

Q38 Mr Allan: The Imperial War Museum North is so far, so good, is it not—a success story? That was your risk, was it? You were deciding how far to invest up north. That was very much done on that basis, that it was your risk?

Mr Crawford: It was. The project was originally proposed to Government on the basis that it would be self-financing as to capital and revenue. We were fortunate, however, to be offered by Government a sum of money to enable admission to the branch to be free, which we had not expected, and that has been very beneficial. As of yesterday the new branch has had 645,000 visitors in the 20 months that it has been open. Our business plan envisaged annual attendance in the range 260K to 300K, and we had 294,000 visitors in 2002, and 305,000 in 2003; so I am very pleased at the way it is going.

Q39 Mr Allan: That financially benefits you as an overall institution, those bigger visitor numbers?

Mr Crawford: I think—and it is a point that relates to the question that Mr Cruddas asked earlier—that the larger you can build your audience, by whatever means, plainly the greater opportunity you have firstly to achieve access to the collections and educational work that the museum does; but equally to nourish means of supporting that financially. So the two run in harness.

Q40 Mr Allan: I like these northern ones, I must say. We have V&A in Sheffield, Millennium Galleries, and we may get National Maritime Museum in the north-east one day; I do not know how the discussions are going there.

Rear Admiral Clare: Might I just add a point about the funding agreements which came up in the answer to the previous question. We have been working with the DCMS on the new shape of the funding agreements, and what we like about them is that we participate in the preparation of them, so that they respect both the DCMS requirement, but also our ability and our aspiration. I think the new approach to this has been dynamic and stimulating.

Q41 Mr Allan: Lindsay Sharp gave us an extra memo from the National Museum of Science and Industry saying that he thought the grant-in-aid must continue to fund the “must-do” museum cake, whilst earned income enables to do “nice-to-do” icing. Is that the general view, Mr Crawford, from

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the museum directors' conference, that grant-in-aid and core museum activities should and must be separate from the commercial add-ons?

Mr Crawford: I think the business is more complex than that, and the way we manage it is as an integral unit, and the interdependence of stewardship functions and access functions, education functions and the income streams that relate to all those—because there are income streams that relate to all those—are both complex, but of a piece. So one does not make that very clear hypothecation; but clearly the grant-in-aid is essentially parliamentary-voted funds to enable us to fulfil our statutory functions of stewardship of the collections: collecting, conserving, documenting, studying and making available to the public, whose collections they are.

Q42 Mr Allan: What about special exhibitions. It says at paragraph 1.13 on page 10 that special exhibitions do not really make much money. I am rather curious about that. When I walk into the Science Museum in Kensington I am confronted by what I see as a hugely successful money-making venture, and I think the James Bond exhibition must make money; they cannot not make money on these hugely successful exhibitions they have had. I know there are different types of exhibition. I know the Imperial War Museum, you circulate some of your core collections, special exhibitions—the Holocaust one was very good. I am rather curious about this, from your point of view as museum directors, as to whether special exhibitions do bring in money.

Mr Crawford: They do, but not necessarily for everybody. I think it is very important to understand that the institutions vary in their markets, in their product, in their collections, in their subject matter and in their audiences. My own experience is that special exhibitions have a tension with my other aim, which is to broaden the audience and maximise that audience. Over the past few months we have had a very, very good exhibition on a core theme, Women and War. We have charged for it, which was something of an experiment for us, because until recently we charged at the front door. What we have actually found is—and by wrestling with this point, and it is a point that you will read in the Report—David Fleming at the National Museums Liverpool has also needed to address, that only 11% of the audience have gone to the exhibition. I am not happy with that, because I want everybody to go to it. It is an important show. So there are some tensions. Equally my colleagues at the Tate are, I think, getting five and a half million a year from special exhibitions; so experience varies.

Rear Admiral Clare: It is also the case that income and profit are two different things, and the cost of staging a show we had last year, *Elizabeth—Elizabeth I*—which was hugely popular, was very successful in every sense, including financially, but it cost £1 million to stage. We came out of that in the black, but it was tricky call. It was a combination of sponsorship, revenue, good earning in the retail sense through the shop; but it is not cheap to put on a world-class show.

Q43 Mr Allan: Just a final question to Ms Street. We talk a lot in here about raising money from e-commerce, and you touched on it earlier—the intellectual property side of museum collections. I can see a potential conflict there between making money out of the intellectual property they have, and the research objectives. I think somebody referred to the National Gallery's policy of publishing catalogues at a price—a very low price—in order to be able to encourage the research side of the work. Would you referee, if there were people saying “Hang on a minute, the National Gallery is holding paintings in my name, but is charging me excessive amounts of money to get hold of them”—potentially, in order to raise money, whereas it should be available for the public for research purposes? I was just wondering how that is going to be resolved. It looks like it is going to be a good growth area.

Ms Street: Ultimately I think if it is a case of what is giving the system best value for money we would need to referee. This is quite an immature market still, and people are still finding their way, but on the whole we are finding museums and galleries actually very keen to make their treasures available on line, also to reap the profits from retailing on line, although that is quite difficult to do. At the moment the argument has not been presented in that way, but ultimately we would need to take a view if there were any exploitation of the taxpayer.

Mr Crawford: Certainly there are some issues there, but I think on the whole they could be balanced in the same way as they are in the analogue world. The Imperial War Museum, for example, has very large archive collections, image collections—150 million feet of film and seven million photographs, that sort of thing. Since its foundation during the First World War, providing the market with access to those images has been a major part of our business. I want to digitise that business, but I need capital to do it, and that is a problem. But I do not see that it is other than in the public interest to harness the resources of the commercial sector through digitisation and web access to those collections, to both provide the broadest possible, indeed global, access to the collections, and derive an income stream which supports their preservation as national collections.

Rear Admiral Clare: We provide a great many images on our website from the collection, and it is very popular, because of course you can access it worldwide. However, we watermark the images so that we do not lose the revenue on one hand from the sale, but more particularly, we protect the copyright, which in some cases is ours and in some cases is not. So it is not solely done for revenue reasons. We have not, though, found making money in terms of on-line shopping as being a very easy business. We have invested prudently and cautiously and we are just breaking even now, and showing signs of going into profit. It is not an easy area of work unless you commercialise your website totally, and that I think is counter to the ethic of the museum service.

Chairman: Thank you. Mr Ian Davidson?

Q44 Mr Davidson: I wonder if I could start by picking up with Ms Street about corporate sponsorship, and following Gerry's points about

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sport, whether or not there are any danger—I just see the parallel with sport, where the best boxes and the best seats for cup finals and internationals are sold to people who have absolutely no interest in the ongoing activities of the sport. I wonder whether or not corporate sponsorship here for galleries had a similar sort of effect by driving out other perhaps less prosperous markets?

Ms Street: I do not think that is our experience at all. Colleagues may want to add, but on the whole what you find is that during the core opening hours, the museum is available to everybody. Some corporate sponsors want private views or some particular time when the gallery would not normally be open. It is not like the performing arts or sports events; the collections are there, and therefore it is just a question of extending normal working hours to accommodate some sponsors.

Q45 Mr Davidson: Can I ask about the choice of events, though, whether or not the ability to attract sponsors makes it more likely that some events will be sponsored or will go ahead rather than others, and other example of things that are not taking place because they are insufficiently sexy for sponsors.

Rear Admiral Clare: There is certainly a market there. We did a tattooing exhibition, we had no luck at all finding a sponsor, so we did that ourselves, and it brought us a huge amount of kudos from new audiences who traditionally did not visit museums. A sponsor missed a trick, frankly. But at the other end of the scale with *Elizabeth* we had a sponsor who did not just want to part with the money, they wanted to participate, which is something of course they cannot do in sport in a direct sense. They participated by adding value to our leadership scheme for sixth form students. We did that as a partnership with the sponsor, expecting around 300 sixth form students to come and study with us, and in fact we had more than 500. The company then actually took part with their senior executives. I think that is a very good example of the sophistication of a new sponsorship deal.

Mr Crawford: I can think of no example of the product and the public interest and the reputation of the institution being diminished as the result of a partnership. The trade is rather the other way, that the partnership with national institutions is sought by sponsors because of the prestige that attaches to it. We are of course in control; we do not have to accept those that we think are—

Q46 Mr Davidson: I do understand that. I am just picking up on the tattooing. Presumably there might very well be other exhibits that do not proceed, simply because sponsorship cannot be found. It is the balance, it is the narrowing of the range of offerings that causes me anxiety, because I think the Treasury is likely to affect how much it gives by how much you are able to raise yourselves, and if you are relying then on the private sector in this way then there are some things which are obviously going to be less attractive than others, and less likely to proceed.

Ms Street: I think from my point of view this points to how sacred we hold the principle of not reducing grant-in-aid in proportion to revenue earned, and I am very happy for Treasury colleagues to hear me say that, and I hope the Committee will endorse it, because that is where it rests. Grant-in-aid should allow museums and galleries certainly not to be extravagant, and they are not able to be, on grant-in-aid, but to offer to the citizens the shows that they intend to offer, and to have sponsorship for further and greater admission.

Rear Admiral Clare: I would just add that if a sponsor will not come on board—unlike tattooing, which was a great success—if people do not want to come and see it, then why do it? I think there has to be a strong business analysis done by the museum before launching any exhibition, and I cannot think of an exhibition that either would not attract a sponsor or would not be worth doing in its own right because of the audiences it is bringing in. Tattooing is a good example of that. I think if you find yourself with a show that you cannot sponsor and you cannot pay for, then you should not be doing it.

Q47 Mr Davidson: I used to work in the voluntary sector, and I was conscious that in situations where we were strapped for cash, it was quite often the case that things had to be foregone that were worthy, because we simply could not get the charitable foundations or the council to pay for them. So I am not entirely convinced of that. Can I turn to the point about charges at galleries. I think Mr Crawford mentioned about 11% in one of your special exhibitions, I think it was, paid to get in. Can I ask you about the make-up of that 11% as compared with your normal audience. Was it an actual cross-section, or was it a particular social stratum, or were there any other characteristics?

Mr Crawford: The exhibition is still running, so we do not have all the data nor analysed it. I have not detected that there is a social issue. I think it is arguable in that case that it was an error of judgement on my part to apply a charge to an exhibition with such a broad social appeal, because there were many who came hoping to see the exhibition, finding that there was a charge for it.

Q48 Mr Allan: How much was the charge?

Mr Crawford: The charge was £7 for adults and £5 for concessions, which is more or less the standard sort of charge that national museums and galleries charge for special exhibitions. As I said in answer to another question, this is something of an experiment for us, because our previous practice before free admission was to charge modestly at the front door and offer everything free, which seemed to suit what we stood for, because what we stand for is people's experience and contribution in wartime, and that is as broad as society is broad, and one does not want to deflect—

Q49 Mr Davidson: Can I ask whether or not there is any evidence that the audience for the pay-for exhibitions is different from the ordinary audience, and how do you know?

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Ms Street: I will write to you if this is incorrect, but from memory we see a very great increase in regular visitors—as I said, a 70% increase since we introduced the free access policy—and a great increase in the numbers of visitors going to special exhibitions. But I simply—I may need some help here—

Q50 Mr Davidson: So that is a “don’t know”. I find that a worry, you see; I do find that a worry. It was a deliberate political decision by Government to open up the galleries and the exhibitions by having free access, and here we have a system of pricing which could be said almost to be deliberately designed to exclude, and you have not actually been monitoring whether or not there is a socially diverse audience.

Mr Crawford: Institutions do have really very elaborate audience demographic surveys and analyses. Mine certainly does, and it goes back 10 or 15 years. I am sure all my colleagues when mounting special exhibitions will carry out surveys of that audience and analyse it very carefully to establish whether there is a—

Q51 Mr Davidson: Yes, but what are the results? If you monitor it carefully what can you tell me?

Ms Street: I am told that overall the monitoring is careful, that there is a 20% increase in the lower socio-economic groups attending special exhibitions, so that is healthy.

Q52 Mr Davidson: So more people from the lower socio-economic groups are attending the pay-for exhibitions than are attending galleries as a whole?

Ms Street: No. Since free access was introduced.

Q53 Mr Davidson: Since free access you would expect those who are poorer to attend in greater numbers. What I am not clear about is whether or not they are attending in equal numbers the pay-for exhibitions?

Ms Street: I am sorry, that figure was for the pay-for exhibitions, a 20% increase in that socio-economic group of the whole free access.

Rear Admiral Clare: Could I help, because we did some specific work over *Elizabeth* which we judged might be a show that excluded, if it was handled incorrectly. What we did was we made available on advertised-locally days concession and free entry to *Elizabeth* at times of the day and on days of the week when we knew the take-up from paying customers would not be an issue in business terms. As a result of that, when we measured the demographics for that particular exhibition, those who visited that exhibition, they mirrored exactly the demographics for the museum as a whole. We regarded that as an interesting achievement, because the ticket price for the full-paying adult was £9.50, but we had no letters of complaint, no observations or comments from customers about that price. What was interesting was that we had praise from those who found they could come on concessions, including those on benefits and so forth, where we had particular targeted concessions that assisted people within a

reasonable travel-to-work approach. I think all my colleagues are doing something like that, to make sure that we are not excluding. The whole ethos of the museum service is to include, not exclude.

Q54 Mr Davidson: No, I do understand that, but I do find it surprising that people did not complain about the charge, because by and large people would not want to humiliate themselves basically by saying “I could not afford to go to this”.

Rear Admiral Clare: With the praise we got, we were actually making it easier for them.

Q55 Mr Davidson: Can I just clarify whether or not all the places that run pay-for exhibitions undertake similar special efforts to draw in a wider audience who might be excluded?

Ms Street: The funding agreement, as I was explaining, sets out very clearly the Secretary of State’s priorities, and that includes visitor numbers, involving communities, involving young people, so they have every incentive in order to get grant-in-aid to attract people in. But I do realise that I might have been less than clear on all this. The basic test is we are getting many more people through the door because it is free, and we monitor the proportion of those who go to special exhibitions, which appears to be greater. If there is any more that I can find, I will let you know.

Q56 Mr Davidson: Sure. Let me get this absolutely clear. You are saying to me that there is a higher percentage of the lower socio-economic classes who are paying to get into the exhibition than visit the museum itself?

Ms Street: No. I am not making myself clear. I am just saying that since free access we have 70% more visitors, some of whom are from the different socio-economic groups, and a proportion of those, since they are in and they have not paid any money, are prepared to pay for the special exhibitions instead of paying at the door.

Chairman: We will have to come back later; I am sorry about that.

The Committee suspended from 5.35 pm to 5.45 pm for a division in the House.

Q57 Mr Davidson: Statistics. Tell me.

Ms Street: I will tell you everything I know at the moment, which is that obviously free access only took effect on 3 December 2001, so we are just over two years in. We are clear that in that time overall visits have gone up from around 7.7 million to 13.3 million just in those museums that used to charge, much greater for the whole of the museum world. There has been an increase of social classes C2, D and E, of approximately 20% of those coming in the door.

Q58 Mr Davidson: That is a much smaller increase than of the population as a whole. 70% increase overall, 20% amongst the poorest, so you are still not reaching them.

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Ms Street: We certainly need to build confidence and build the market, but we are coming along.

Q59 Mr Davidson: The second point that I was actually asking you was about those who were going into the pay-for exhibitions.

Ms Street: Those statistics are not yet rigorous enough for me to offer you, and what colleagues here are saying is that what has happened is, certainly in the National Maritime Museum, in a sense there is no change from what was happening before, other than that you are expecting more to come in the door in the first place; so before you would charge at the door and at the exhibition, you now allow people to spend whatever money they want to spend—in the shop, at the exhibition, or in the restaurant.

Q60 Mr Davidson: I think you understand the reservations. It is clear that making something free increases the audience by 70%. Only 20% of that are from the poorer social groups. It would tend to be almost intuitive that those who are poorest are likely to be put off by the charges for special exhibitions.

Ms Street: Except that they could not possibly see those collections—the special exhibitions spring from around the world, so unless one had an enormous amount of additional grant-in-aid to give to museums, there would be no way for an individual to see those.

Q61 Mr Davidson: I understand that plea in mitigation. Could I just come to the point about museum shops internationally. I am under the impression that greater priority is given, for example in the States, to sales of posters, and all the rest of it. Having been to a number of museum shops in America I have the impression that they take it much more seriously; they spend more, the exhibits are better, there is a wider range of goods, and so on. Is that true? Is that your impression also?

Ms Street: I think we have a lot to learn, but we see our museums and galleries catching up very fast. I would have to say the Tate brand is the best example of building a brand, using it for B&Q paints, using it for a travel company. There is much more. They are much more mature in the States.

Q62 Mr Davidson: Yes, I understand that. They do seem to have built it in at a much earlier stage. Very often the shops and so on here give the impression of being stuck into whatever space has been left over. I see the War Museum shake their head, and I accept that; yours is much more central than many others, but it is almost very much as an afterthought. Could I just ask, then, how do you balance what in a sense is almost the cultural heritage side of the shop as distinct from just simply the making-money side? I can see the point about Tate paints, part of Britain's history for people with perhaps more money than taste; but whereas the War Museum providing the music of the period, the posters of the period, is genuinely educational. There has to be a balance struck there, presumably, between providing things that will just sell well, and providing things that will

actually enable more people to access our history and our shared cultural experience. What is the thinking that goes into that?

Ms Street: I will ask my colleagues to comment, because they are very expert. I would say from the Department's point of view firstly that we recognise that the Report says that the United States is more advanced in this, but their culture is different; they are very much less able through taxpayers' money to give a public service, and they have to generate income in the market, so it is a different ethos. In terms of how the judgement is made, we look and we expect the grant-in-aid to fund the core business of the museum; and the self-generated income then needs to be within the ethos of what the museum is doing, but to make a profit.

Rear Admiral Clare: They are businesses, and they have to react to market pressures, so we survey those who come and we hear from those on pocket money that there are not enough things for them to buy. Sometimes it is one's own children who tell you that, but we have a more sophisticated way of doing it. As a result we tailor the product so that there is something there for all who wish to, to invest. We have also taken out licences over the last two years in eleven different products straight out of our collections, which allow us to market those items not just in our own shops but in shops the length and breadth of the United Kingdom. So I think we are learning from what is possible to be done in the States. In our case we are certainly investing. It has to be done patiently and gently, because there is not a lot of capital to put in at the front end. Our shop, for example, which is, incidentally central to the main entrance and departure point, is generating sales of £1¼ million pounds a year. That translates into £73,000 earned per head of staff working in the shop. We think that is a good start, and we can probably build on that. I think that is an important message.

Mr Crawford: I would affirm that. IWM have seven on-site shops on its premises. They are all a crucial part of the public offer. The late Kenneth Hudson, who was something of a museum guru in the seventies and eighties, used to say that the most important things from the public point of view were the lavatories, the shop and the café; and indeed they are, because they are part of the service. As to balancing the offer in the shops, yes, one plainly has a wide-ranging market from scholars through to school parties with £2.50 or whatever it is to spend on a school visit, and you need to be able to offer products that satisfy that full range of customers. At the end of the day, though, my remit to my shop, commercial department, is profit.

Q63 Mr Davidson: Can I make an observation and a final point. Noting the point that Ms Street said about the American example, correct me if I have got this wrong, but it seems to me this is a clear case where forcing a market mechanism and removing public support from an institution has actually forced it to be much more popular and to appeal to a wider audience, rather than state funding which has enabled, in Britain certainly, basically toffs and

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snobs to have an undue influence over the direction of these sort of events. Having to raise money from the public as a whole has forced the American galleries to be much more open. Do you think that is a trifle unfair?

Ms Street: I think it is questionable. You do not have free access in the States to most museums and galleries.

Q64 Mr Davidson: It is very modest, though; much more modest than here.

Ms Street: We now have free access here.

Q65 Mr Davidson: I was thinking about the special exhibitions. It is cheaper in the States to get into the whole gallery than it is here to get into many of the special exhibitions.

Rear Admiral Clare: In my experience they are quite aggressive at the door in making you part with your money voluntarily. I have been hustled in one or two American institutions.

Mr Steinberg: What do they show in museums in America?

Q66 Mr Davidson: Things that have been stolen from elsewhere; but leave that for a moment.

Ms Street: I understand the theory. I think I would have to say that throwing open the doors, enabling everybody to come to the museum, and not having to put everything into a very fiercely competitive market, is a help to the general public, but that thereafter there are certain bits of the museum and gallery business that have to earn their places, including such exhibitions, retail and cafes.

Q67 Mr Davidson: The final point I want to ask is, how far can you stretch the brands? I can see the point with paints, because it is actually authentic paints of the period, and so on, and I can see the point about music. I did not quite see the relationship with Tate holidays, unless they are directly related to the exhibits. Is there a limit? Is there a self-denying ordinance that you have, because presumably to some extent there is a temptation that you just to ride on the brand's credibility and try to sell something that is really nothing to do with anything that is going on there?

Mr Crawford: I think it is like any other brand management exercise, that it is not in the interests of the institution for its brand value to be diminished, and therefore the exercise of judgement is needed to ensure that one does not participate in a partnership that is seen to be diminishing to the brand, as with any commercial operation. I imagine that with Tate, the notion was that art and travel are in many ways intimately linked. The Imperial War Museum has had a successful—up to a point—we had to change our provider—battlefield tours project. British Museum tours have been going for some years, very successfully, and I think there is a synergy between what the institution stands for, its purposes, and wider markets at that time, which can be exploited.

Rear Admiral Clare: The principal risk is the gauge of reputation, because we depend on sponsorship and people looking after us in all sorts of corporate

and individual ways based on their perception of our capabilities and our ability. I think if that were tarnished they would not come to us, so we need to be able to address both the entrepreneurial alongside the core intellectual reputation of the institution.

Chairman: I think Mr Allan has a supplementary.

Q68 Mr Allan: Mr Crawford, when you talked about the pay-for exhibitions earlier you sounded quite wistful for the old days when you charged an entrance fee rather than an exhibition fee. Can I ask you, sitting next to the Permanent Secretary of your sponsoring department, whether if you had a completely free hand you would prefer to go back to the old system of an entrance fee rather than the exhibition fee? ?

Mr Crawford: Free admission is a huge opportunity for museums. I think it is an opportunity to broaden the audience, which is so relevant to the theme of my own museum; but no. What is important is that it is sustainable. This issue, that I do discuss with the Permanent Secretary, has two levels of public funding going forward. For my marketing people, and the specific issue of special exhibitions, it has required some adjustment of thinking. We historically did not charge for special exhibitions, because we used them as the means of bringing people into museums. We are learning how to play a new game, and learning quickly.

Q69 Mr Allan: Is there a settled view, do you believe, across the national museums sector now, that free admission is here for the foreseeable future, therefore you are all in this game of learning about special exhibitions as the way of making up for free admissions and the loss of funding?

Rear Admiral Clare: I can only speak for the National Maritime Museum, where we are wholeheartedly behind free admission. It has been a very effective policy and has brought us new audiences. We appreciate that and we are working with the community around us, as a good example. It must be sustainable, however, and that is the only caveat I have.

Mr Crawford: I think that is a view that is shared across the board.

Q70 Chairman: Just one or two other questions to wrap things up. Rear Admiral Clare, would you say a bit about the role of trustees? You have some experience of how they can help with income generation.

Rear Admiral Clare: There is a triumvirate that makes success in a museum. The DCMS as our chief sponsors provide the conditions in which we work. The culture of the museum depends on a lead from the trustees and from the director and senior executives, and I think the trustees' role in that is immensely important, because they bring into that discussion a wide range of experience and in some cases direct expertise in relevant disciplines. The third issue is skilling, and the capacity of the

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museum to carry out entrepreneurial activity. In some cases particular trustees can bring very direct input through their experience either in retail or business. I think trustees are indivisible from the success of a museum, but I would just emphasise that it is in particular ways. It is impossible for trustees to deal at the executive level day to day. They only dip into our figures and our capacities periodically, because we are all running busy lives. We can certainly look, for what it is worth, in terms of their input to us. We have found that helpful, for example, in the development of our more senior managers, where the cultural changes that have come about in the museums have to be imparted in various ways at various levels, from our Chairman, who is able to demonstrate his skill base as a ship owner and operator of shipping with very particular regard for business principles. That permeates the museum, and I bring a different set of skills, equally focused, and we employ our people alongside trustees who can mentor them.

Q71 Chairman: Thank you. Ms Street, in choosing directors in future will you pay attention to their entrepreneurial skills and experience so that we can expect more in terms of income generation?

Ms Street: It does not fall to me to appoint all the directors—

Q72 Chairman: Or whoever does appoint. Should they pay attention?

Ms Street:—but certainly we will encourage the Board—and we have seen evidence of this in recent appointments, and certainly in terms of development of leadership in the future.

Q73 Chairman: In other words, not just their academic experience or their distinguished military career, or distinguished experience in the museum field, but this will also be an important factor, will it, in future?

Ms Street: This will indeed be an important factor for the future, but I think a lot of credit goes to those who are currently directing our museums and galleries for the 108 million that they are raising.

Rear Admiral Clare: It is wider than just the nationals. I have been working recently on the leadership initiatives. We are doing this across the sector in all parts of the museum—libraries, archives—and across the UK. It is not isolated in this case to England. What we are finding is that there is great innovation, great ideas, in all corners of the sector, both in the nationals and in the independents and regionals. What we have put together is a mentoring scheme which brings at the moment some 40 individual leaders within our sector who are meeting each other, but, more importantly, assembling around each of them small groups of either would-be directors or would-be senior leaders, so that there is a spreading of the expertise. This is capacity building and is exactly what the DTI and the DfES report by Sir Anthony

Cleaver some two years ago now intended. His report was on management and leadership, and there was a very good Government response to it about a year ago. In among the recommendations were a number to do with the mentoring and the bringing on of capacity not just in the cultural sector. I think it is very important that we have museum directors who are from the sector, but equally important that we have others who come in from other places.

Q74 Chairman: Thank you for that. Ms Street, may I just ask you this. We know that museums and galleries have many more pictures and artefacts than they can ever exhibit. Thousands arrive that are kept almost permanently—or perhaps permanently—in storerooms. To what extent can museums and galleries sell these pictures or items? Would you encourage it or discourage it?

Ms Street: I would not encourage it. I have seen—I hope everybody has seen—in the Enlightenment galleries at the British Museum what we can do by bringing things out of store and being a bit more aggressive about making sure that things do not just stay out of sight; so a lot is being done. I think it is enormously encouraging to see where things are taken out of store and loaned or toured around the country, and we have seen very good examples of that. Most of the museums and galleries are using a proportion of grant-in-aid for new acquisitions, which is rather different from selling off what they have already. So overall I hope that museums and galleries can bring their treasures out of store and send them out—particularly those places in London—to the regions.

Q75 Chairman: If you were a private collector you would sell to buy, would you not?

Ms Street: Yes; and it is not impossible in certain circumstances. It is not forbidden in certain circumstances.

Q76 Chairman: Lastly, whatever you say, we look at the figure—which I referred to right at the beginning of this hearing—the picture is very mixed, and clearly some museums and galleries are doing a lot better than others. It seems the whole tenor of your evidence, Ms Street, is that you want to leave them to their own devices. Is this your wish or their wish, or do you think it is just part of the policy which you have to subscribe to?

Ms Street: I certainly did not intend to create that impression. What I want to do is to listen to what the museums and galleries want from us, to build on this Report, which I think is very constructive and helpful, and on the seminar that we will be holding with the National Audit Office, and then to create the conditions for success. I do not think that necessarily involves—in fact I am pretty sure it does not involve—a great bureaucratic overlay of 'must-dos'. I think it involves a genuine readiness and flexibility to help them generate their income.

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Ultimately, as the Report makes clear in recommendation 8, income generation ultimately is a matter for the individual museums and galleries. Our job is to make sure that they are as effective as possible, and that I control the public expenditure for which I am accountable to this Committee.

Q77 Chairman: That is a good note on which to finish this hearing, which has been a very positive one. You obviously want to say one thing more, though.

Ms Street: I just want to say for the record, because I think it is important, how much we owe to our trustees. There are many points in this document where there is a reference to their expertise freely given. That has not been quantified in terms of value, and I want to place on record how much that is valued.

Chairman: We are all very grateful for the work of the trustees. Thank you very much. It has been an interesting hearing and we will return to this in our report.

Memorandum submitted by the National Museum of Science and Industry

1. The National Museum of Science and Industry (NMSI) welcomes the Report by the National Audit Office, and congratulates Sir John Bourn on the quality of the work done by his department. NMSI is grateful for this opportunity to submit written supplementary evidence to the Committee of Public Accounts.

2. It is made clear by the Report that the national museum and gallery sector is not a simple homogenous one. Although national museums and galleries are subject to the same Act and sponsored by the same Department, the variety of their histories, aims and collections is mirrored by the differences in their practical approaches to organisational matters, including revenue generation. The variety in the size, scope and structure of museums' trading companies illustrates this. An overview such as this report should therefore steer clear of drawing general prescriptive conclusions from specific individual examples. The national museums of the UK have thrived in large part through an arm's-length system of governance which has encouraged each institution to create the business strategy best fitted for its individual circumstances. In no area is such flexibility more important in than that of commercial revenue generation.

3. The Report paints a picture of present success and future potential in income generation. The fundamental purpose of Britain's national museums, however, is not profit but public service. The Report is very properly a commentary on an important enabling function of museums but not one of their core objectives. The management of museums will always seek a balance between the imperatives of culture and commerce; in practice, the pre-eminence of the former will always impose some constraints on the latter.

4. In such a Report it is helpful to compare, wherever possible, apples with apples. NMSI sees value in distinguishing between truly commercial revenue generation and that from fundraising and sponsorship. Aggregation of these (very different) types of income generation can distort a proper analysis of the real commercial potential of museums and galleries.

Sponsorship (and Lottery funding) is usually associated with specific capital projects, such as buildings or exhibitions, proposed in furtherance of a museum's core public purpose. The function of sponsorship is to enable such exceptional projects to go forward with minimum (or no) impact on the institution's expenditure budget, and in many cases without such income the project could not proceed. Income received is expected to go towards the project, and usually is not within the gift of the institution to re-allocate to other purposes. This is very different in principle from commercial activity established and managed in order to contribute unallocated profits to the institution. In such cases, the business model is nearer to a conventional private sector enterprise, with appropriate risk management and financial measures.

NMSI would also welcome consistency in accounting treatment of items such as: rental charges applied to commercial activities, accounting for internal resource costs, recharges between functions, intellectual property valuation and depreciation of capital assets. All of these affect significantly the profitability reported from organisations' income generation.

5. However successful national museums and galleries may be in generating non-grant income, this will always be hostage to the vagaries of the commercial and consumer market place. There will therefore be a degree of risk if the core expenditure commitments of museums and galleries come to rely upon it. NMSI believes that grant-in-aid must continue to provide sufficiently for the essential must-do museum "cake", while earned income enables nice-to-do "icing". The organisational risk of over-dependence on earned income would be unacceptable for custodians of the national heritage.

Lindsay Sharp
Accounting Officer

20 February 2004