

THE BRITISH MUSEUM

REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2003

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TRUSTEES' AND ACCOUNTING OFFICER'S ANNUAL REPORT

1 Introduction

The Trustees of the British Museum have pleasure in submitting their Annual Report and Accounts for the year ended 31 March 2003. Pages 21 to 52 and details of Trustees and Official Addresses set out in *Appendix 1* form the White Paper Account as audited by the Comptroller and Auditor General and laid before Parliament.

This Report gives a detailed review of the Museum's activities and major projects for 2002/03, directed at fulfilling the Museum's aim and its published Plan. Whilst the report identifies success across a wide range of programmes and activities, a prime concern of Trustees and senior management has been to address the financial deficit, taking firm action to expunge it by 2004/05. The Museum is now confident that this will be achieved.

2 The British Museum

The British Museum is one of the most popular museums in the world, receiving 4.6 million visitors in 2002/03. It holds for the nation collections of antiquities, prints and drawings, ethnography, and coins and medals that are amongst the finest in the world. The collections derive from all continents and over 10,000 years of human history. They are housed in safety, conserved, curated, researched and exhibited. Responsibilities and activities flow from the custodianship both of the collections and of the building in which they are housed. The collections are exhibited for the visiting public in London and, more widely, through loans to other museums, both in the UK and abroad and through the Museum's websites. They are enhanced by means of purchases and gifts, through excavation and fieldwork undertaken by Museum staff. The Museum acts as an international centre for scholarly activity, making the collections available for research and discussion. It aims to fulfil its functions efficiently, effectively, economically and in a friendly and accessible manner.

Aim

The aim of the British Museum is to hold for the benefit of humanity a collection representative of world cultures and ensure that the collection is housed in safety, conserved, curated, researched, exhibited and made available to the widest possible public.

Consistent with this aim is the Museum's mission to inspire and excite visitors and other users of the Museum, helping them to enjoy the collections to the fullest extent, through well-presented and serviced public galleries and study collections, world class exhibitions, education programmes and publications and imaginative use of media.

Principles

In order to fulfil its aim and mission, the Museum's guiding principles are:

- openness - to illuminate the breadth and depth of the collections and to expose the cultural significance and context of the objects, through physical and electronic access in line with best practice for public information and participation
- learning and engagement - to offer a framework of understanding that is broadly coherent and comprehensible to the general public and provides orientation across culture, time and place
- research and understanding - to develop the quality, connectedness and future direction of the Museum's research through peer review, collaboration and publication, through access to the collection, library and archives and through conservation, security and acquisition
- public recognition - to shift and deepen public understanding of the Museum's local, national and international contributions and to strengthen and broaden income streams
- effectiveness - to develop the efficient use of the human, property, financial, and information resources and processes so that they perform on a par with best international practice within a clear framework of risk assurance, performance indicators, delegated authorities and shared priorities.

The Museum has five priorities for achieving its aim:

- continuous improvement in the quality of the general visitor's experience
- a deepening of the opportunities for the visitor to explore the collections
- enhancement and rationalisation of the Museum's estate and its fabric
- an upgrading of the facilities for curatorial endeavour
- close alignment between the Museum's curatorial objectives and its public programmes.

Organisation of the British Museum

Trustees

The British Museum was founded by Act of Parliament in 1753 and is now governed in accordance with the British Museum Act 1963. General management and control are vested in a Board of 25 Trustees and are exercised through meetings of the Board and its specialised committees (listed in *Appendix 1*). One Trustee is appointed by the Sovereign, 15 are appointed by the Prime Minister, four are appointed by the Secretary of State for Culture, Media and Sport on nominations by learned societies, and five are elected by the Trustees themselves. Operations are conducted by a Management Board, on the basis of a Plan approved by the Board of Trustees. The Management Board is chaired by the Accounting Officer and comprises other senior Museum officials. Under the terms of the 1963 Act, the Trustees are required to report triennially to Parliament on the Museum's activities, but have decided to fulfil this obligation on an annual basis.

Departments

The Museum comprises 20 departments: Ancient Egypt & Sudan; Ancient Near East; Asia; Coins & Medals; Ethnography; Greek & Roman Antiquities; Information & Education; Prehistory & Europe; Presentation; Prints & Drawings; Conservation, Documentation & Science; Buildings & Estates; Finance; Human Resources; Information Services; Communications; Secretariat; Operations; Development Office; Directorate. At 31 March 2003 the Museum staff numbered just under 1000.

Housing the Collections

Custodianship of the Museum's collections and its main building is vested in the Trustees. The Museum's main site is at Bloomsbury. The Department of Ethnography is located with most of its collection at Burlington Gardens but plans to return to Bloomsbury in March 2004. Two buildings in Hoxton provide additional workshops and storage for the three departments of Ethnography, Prehistory & Europe and Conservation, Documentation & Science. Textiles and archaeological and general materials are stored at a property in Hammersmith shared between the British Museum, the Science Museum and the Victoria and Albert Museum.

Support for the Museum

The work of the Museum is supported by three 'friends' associations. The British Museum Friends furthers collecting, public services and conservation, co-ordinates the Museum's volunteers and services the needs of the Friends. The American Friends of the British Museum (AFBM) is committed to supporting the Museum's development, particularly by enhancing visibility and awareness as well as by raising funds for the Museum in the United States. The Society of Canadian Friends of the British Museum seeks to promote links between the British Museum and museums and interested groups in Canada. Some antiquities departments are also supported by groups of friends: the Caryatids (Greek & Roman Antiquities); the Friends of the Near East (Ancient Near East); the Japanese Friends (Asia); and the Patrons of Old Master Drawings (Prints and Drawings).

Financing the Museum

The Museum is a Non-Departmental Public Body subject to a Management Statement and Financial Memorandum agreed with its sponsoring department, the Department for Culture, Media and Sport (DCMS). It is an exempt charity under schedule 2 of the Charities Act 1993. The Museum is funded by a combination of grant-in-aid allocated by DCMS and income secured through activities for which a charge is made, sponsorship and a range of commercial and fund-raising activities. Since its foundation, gifts have been received from private sources in the form of objects for the collections, property for housing the collections and financial support for the Museum's objectives. The Trust Funds established with financial donations are directed towards the general purposes of the Museum or towards specific areas of its activities in accordance with the wishes of the benefactors.

A significant proportion of the funds is held as permanent endowments or in restricted funds; one fund is managed on the basis of custodian trusteeship.

The British Museum Company Ltd (BMCo), set up in 1973, is a limited company wholly owned by

the Trustees and an exempt charity. It furthers the educational objectives of the Museum through publishing curatorial activities and research and, through its subsidiary British Museum Ventures Ltd, acts as its main retailing and off-site trading arm. The British Museum Development Trust (BMDT), an exempt charitable trust, was set up by the Trustees in 1989 to support the aims of the Museum. The British Museum Great Court Ltd was set up in 2000 as a limited company wholly owned by the Trustees, to further the trading and income generating potential afforded by the Great Court development.

Planning

In Autumn 2001 Trustees determined that cost reduction actions needed to be taken to secure the Museum's future solvency. They agreed short term actions necessary to reduce the deficits projected for 2002/03 and 2003/04 and identified the quantum of savings required for subsequent years in order to eliminate the deficit projected for 2004/05 and beyond. In April 2002 Trustees agreed the further actions to achieve these subsequent savings while containing risks to core aims and commitments. Key requirements were to reduce staffing by about 150, secure the early return of Ethnography, Prehistory and Early Europe and the Development Office to the Great Russell Street site, dispose of surplus properties, improve the efficiency of the use of resource, secure closer alignment between the public and curatorial programmes and ensure full funding of all new projects.

Plans for the achievement of these actions are now substantially in place and are being carried through. They have been developed in full consultation with staff and Unions. The necessary savings for 2002/03 have been delivered, those for 2003/04 are established within delegated budgets and the Museum expects to have eliminated the projected 2004/05 deficit. Although the Museum Plan for 2003/04 to 2005/06 maintains the priority of delivering these actions, it now introduces programmes for implementing real improvements to the effectiveness and vitality of the Museum in the longer term. The Board has established four objectives:

- to establish the Museum at the heart of the UK's cultural and educational life
- to improve performance over the two years 2003/04 and 2004/05 after delivering the necessary deficit savings in 2003/04
- to deliver key Museum-wide projects in 2003/04 to time and budget
- to develop the Museum through well managed investment.

The last of these objectives will be achieved by:

- developing a programme to re-present the collections to the public both within the Museum and more widely
- developing a commercial strategy that gives greater financial flexibility and assurance to the Museum
- completing the space planning process to secure effective use of the available space for permanent and temporary exhibition facilities, public services, office and library facilities for staff, workshops, support services and collections storage
- identifying a programme for building the capacity of staff and managers through training and development, recruitment, performance management and appraisal, communication and feedback
- focusing short term investment on people development, maintenance and infrastructure projects
- prioritising programme activity to support institutional objectives.

3 2002/03 Highlights

The following list highlights the diversity and wealth of the Museum's outputs:

Selected acquisitions

- the Milton Keynes hoard: 2 decorated gold neck torcs and three heavy gold bracelets together with their burial pot, Late Bronze Age, 1150-800BC
- red jasper Isis ring from Wroxeter
- two fragments of painted limestone relief from tombs of the Twelfth Dynasty at El-Lisht
- two fragments of papyrus inscribed in Demotic text: one from the second century AD describes a singer who came to Egypt from Syria, the other refers to the Emperor Philip of third century AD
- glazed composition shabti-figure inscribed for King Nefertites (399-393 BC)
- fragment of limestone relief showing the head of Queen Nefertiti, probably from a scene showing the entire royal family offering to Acton (about 1350 BC)
- gold pendant reliquary, 15th/16th century AD
- 13th century AD gold and garnet brooch
- Merovingian silver-inlaid iron buckle, early 7th century
- brass circular slide rule by Johannes Hulett, 1635
- blue glass bowl with gilt East India Sugar inscription accompanied by wooden box, early 19th century
- earthenware copy of the Stevens lion made by Pilkington's Pottery & Tile Co ca.1900
- three tent hangings from Kazakstan and a carpet depicting the head of Lenin from Turkmenistan
- diablo costume, Chinas Morenas costume and Morena costume
- Pandanus leaf fans, mats and baskets from Vanuatu
- dance costume, wedding dress and three island dresses from Vanuatu
- painted burial poles and tow bark paintings from Yirrkala, NT Australia
- quilts, pillowcases, island dress and headband from Cook Islands

- black stone statue of standing Bodhisattva Avalokiteshvara, Palar dynasty, Bihar, India, ca. 1100 AD
- painting of a heroic scene, Punjab Hills India, ca 1810 AD
- Korean landscape painting 'Looking over the River' ink on silk, Choson dynasty, 17th/18th century AD
- Cambodian sandstone sculpture of an Apsaras, Cambodia, 12th century
- green bronze sculpture 'Flying Form' by Chungsook Kim, Korea 1981
- imperial crown and collection of jewellery with kingfisher feather inlay, China. The crown is Ming dynasty 17th century and the jewellery is Qing dynasty
- Arabic calligraphy in black ink on paper bearing seal impressions in Chinese and Arabic, China, late 19th/early 20th century
- Ming dynasty Chinese jade figure of a carp and lotus, embellished with stars
- Vietnamese blue and white 15th century dish with mythical creature design
- glazed earthenware model of a horse and rider, Chinese, Sui dynasty (581-618 AD)
- Seated Figure: Frank Auerbach (1966)
- Chateau de Lassay: Ludovic Piette (1826 – 1877)
- An Apple Tree: John Linnell (1792 – 1882)
- The Calling of St Matthew: Giovanni Domenico Tiepolo
- Arc Procession 9: William Kentridge (b. 1955)
- My Mother at Work: Umberto Boccioni
- The Angel at Islington: Fred Williams, (1927 – 1982)
- a group of 70 etchings and 9 drawings by Fred Williams (1927 – 1982)
- Stacking Hay: Jackson Pollock ca. 1935
- Homage to Michelangelo: David Hockney, 1975
- Complete Picture of the Opened Port of Yokohama: Uatagawa Sadahide (1807 –1873)
- Illustrations of Famous Places in Kyoto and Settsu: woodblocks, Akisato Rito and Takehara Shunchosai, 1786 and 1798
- two hanging scrolls: Chinese Sage with Goose, Suzuki Nanrei, early 19th century and Chinese Immortals, Yoshimura Kokei (1769 – 1836) and ten other artists
- Grin and Bear It: 63 lithograph caricatures by Elizabeth Keith (1887 – 1956), exhibited at the Peers Club Tokyo in 1917
- *Yamato Takeru no Mikoto*: colour woodblock triptych by Tsukioka Yoshitoshi (1839 – 1892)
- Tao Yuanmin Practising Calligraphy, Assisted by Boys: hanging scroll, Nagasawa Rosetsu (1754 – 1799)
- bust portrait of the actor Arishi Kitsaburo as Sasaki Takatsuna: colour woodblock Hokushu, 1821
- Cycladic jug with linear decoration, 17th to 16th century BC
- terracotta figure of an actor as a slave, 4th century BC
- lead glazed jug with moulded fir sprays on lower body, 50 BC to 50 AD
- gilded terracotta sarcophagus fitting – dolphin, 300 to 340 BC
- red figure kylix, ca. 470 to 460 BC
- hydria decorated with a band of meander and crossed squares, late 4th century BC
- two handled flask with scenes of two gladiators in combat, 2nd century BC
- bucchero olla, probably Etruscan, late 6th century BC
- chalcedony stamp seal of an Assyrian queen 8th century BC

- five grey burnished pottery vessels from Iran, ca. 1000 – 800 BC
- two fragments of Seleucid astronomical tablets and a fragment of an Achaemenid alabaster vessel with a trilingual cuneiform inscription
- Voyage par la Moscovie, en Perse, et aux Indes Orientales: Corneille le Brun , Amsterdam 1718
- two bronze stamp seals of Bactrian type c.a 2000 BC
- three Italian renaissance medals: Caius Cornelius Gallo and Girolamo Gualdo by Camillo Mariani ca. 1575 – 1600 and Danese Cattaneo ca. 1550
- Roman coins from the Langtoft Hoard, late 3rd/early 4th century AD
- Constantinian nummus from the Grassmoor Hoard, early 4th century AD
- two Greek satrapal bronze coins, early 4th century BC
- silver Mexican dollar (8 reales) dated 1896, over stamped many times, including an early 20th century hammer and sickle stamp
- modern medal by Leonda Finke: Times of Terror – 9/11, 2001

Major special exhibitions, attracting 160,000 visitors

- Queen of Sheba: Treasures from Ancient Yemen
- Albrecht Durer and his Legacy
- Kazari: Decoration and Display in Japan

International touring exhibitions

- Eternal Egypt: Masterworks of Ancient Art
- French Drawings from the British Museum
- The Print in Italy
- Agatha Christie and Archaeology
- 100 Views of Mount Fuji

Websites

- launch of the third ancient civilisations website: India
- extensive use of COMPASS images to illustrate curatorial department and corporate pages on the Museum's website
- twelve new COMPASS tours including those for the travelling exhibitions Changing Face, Eternal Egypt and Top Ten UK Treasures

Fieldwork and excavation

Directed or contributed to projects in:

- Sudan: *Kawa, Kurgus and the site of Tombos*
- Egypt: *Sais, Memphis, El-Amarna, Qasr Ibrim, Tell Bellim, Edfu, Elkab, Luxor, Kom Firin*
- Italy: *Forum Novum, Enna*
- Turkey: *Cnidos*
- Morocco: *Volubilis*
- Pakistan: *Bannu, Akra and Lewan*

- India: *Vidisha, Arunachal and Karnataka*
- England: *Burnham Market, Hoxne, Roman Shipwrecks, Bodmin, Runnymede, Elveden*
- Syria: *Jerablus Tahtani*
- Lebanon: *Sidon*
- USA: *New Mexico and Arizona, North West coast*
- Chile: *Elizabeth Island*
- Mexico: *Islas de Sacrificios*
- Romania, Arctic America, Greenland, Solomon Islands, Vanuatu

Scholarship

Museum staff have published a large number of books and articles over the last year. A full report of this academic publishing is available on request.

BM Company Publications

- some 30 books including titles such as *Japanese Prints during the Allied Occupation*, *Maritime History of Britain and Ireland*, *Albrecht Durer and his Legacy*, *Mythical beasts of Greece and Rome*, *Safavid Art and Architecture*, *Silk in Africa and Earthly Paradises*
- 5 occasional papers on subjects ranging from a catalogue of Stone Age artefacts from Southern Africa in the British Museum to a reprint of the *Interface between Science and Conservation*

Collaboration

- UK touring exhibitions:
 - *Visions of the Golden Land: Burma and the Art of Lacquer* – Norwich Castle Museum
 - *Size Immaterial* – East Asian Art Museum, Bath; Bristol; and Sunderland Museum
 - *Changing Face* – the Henry Moore Institute, Leeds
 - *The Print in Italy* – the National Gallery of Scotland
 - *Followers of Fashion: Graphic Satires from the Georgian Period* – Ulster Museum, Nottingham University Djanogly Gallery and Brighton Museum & Art Gallery
 - objects loaned to the Sutton Hoo Visitor Centre, National Trust
- Bedouin tent – Sheppey and Liverpool
- a timeline of history being developed with partners in Chester, Norwich, Sutton Hoo and Exeter
- redevelopment of joint Museums and Galleries in Education MA course with V&A Science Museum and Institute of Education
- archaeological project investigating the earliest human occupation of Britain up to the end of the Ice Age, with the Natural History Museum, Royal Holloway College, Queen Mary, Durham Bradford and UCL
- joint Diploma course in World Art with Birkbeck

Other highlights

- new eyeOpener tours
- introduction of schools teaching resources for North America and Japan, citizenship programme and teacher in service programme
- expansion of diploma in Asian Arts to 5 modules
- introduction of new BM module for Westminster University MA in Visual Culture
- a long term exhibition: 7,000 years of Chinese Jade from the collection of Sir Joseph Hotung, staged in the refurbished Selwyn and Ellie Alleyne jade gallery.

4 Financial Review 2002/03

Results

The consolidated income and expenditure account reports an operating surplus of £5,311,000, before investment losses of £997,000, redundancy costs of £7,182,000, final division of the Shaw Fund with the British Library (£371,000) and profit on sale of properties of £19,712,000.

In a normal year, between £4m and £6m capital expenditure has to be funded from the grant and from self-generated income. In view of the Museum's financial deficit, in 2002/03 and 2001/02 this capital expenditure was instead funded out of capital reserves from the proceeds of investment property sales in 2000/01. The use of these proceeds to fund capital expenditure for the three years to 31 March 2004 was authorised by DCMS and Treasury. By thus releasing almost all other income and directing it towards revenue expenditure the Museum is managing to carry through restructuring without excessively depleting its unrestricted revenue reserves. Meanwhile, short term actions were also taken to contain other expenditure, including marketing costs, building maintenance costs and recruitment to fill vacancies. The reduction in unrestricted revenue reserves was thus limited to just £0.9m.

The Museum holds that the Income and Expenditure account is normally a more useful guide than the Statement of Financial Activity for managing year-on-year financial performance but in this case the results are distorted. The following is a better reflection of the performance:

	2002/03	2001/02
	£	£
Operating surplus	5,311,000	3,460,000
Less investment loss	(997,000)	(141,000)
less, property proceeds applied to capital	<u>(4,209,000)</u>	<u>(4,602,000)</u>
Comparable surplus/(loss)	105,000	(1,283,000)

Although this shows a considerable improvement on prior year deficits, two further considerations need to be taken into account: (i) grant-in-aid will increase by only £955,000 by 2004/05 while inflation will add at least £3m to costs and (ii) the short term actions that contributed to this surplus are unsustainable:

- additional marketing expenditure is needed to establish the Museum's cultural role and to achieve access targets
- the building maintenance programme needs to be increased to address the backlog of building and plant repairs
- the buildings fabric requires increased annual capital expenditure
- once the deficit reductions have been achieved, delivery of the Museum's programmes will require full staffing of the remaining posts

All this means that it is vital to press ahead with the deficit elimination actions already in hand to ensure that a further £2m of costs are removed by 2004/05.

Financial Objectives

The Museum's financial objectives should not change significantly from year to year and they should provide a useful and constant yardstick to assess performance. The Museum fulfils its charitable objectives by offering advice, services and goods to a freely admitted public, to scholars and researchers and to fellow museums and galleries in the UK and around the world. Increasingly, the Museum charges for these services while upholding the principle and practice of free general access. While most indicators of our successful output will remain non-financial, it is possible to state financial objectives that measure the fulfilment of our objectives. These are to:

- restore and then sustain the real value of the grant
- encourage charitable donations from visitors and other well wishers
- achieve reasonable returns from services for which the Museum charges
- raise sponsorship to cover a high proportion of costs of exhibitions and of curatorial posts in appropriate circumstances
- maximise the profitability of the Museum's trading activities
- manage cash flow across the Museum and secure optimal returns on investments and deposits
- invest adequately and effectively in curatorial research, teaching, publications and exhibitions
- devote sufficient resources to widening access through education and other initiatives
- raise sufficient resources (a) for property improvement, and (b) to remedy the backlog of insufficient maintenance of the fabric and services
- secure the future solvency of the Museum by ensuring adequate assured funding for all elements of the Museum's forward programme.

The following paragraphs review the extent of achievements under these headings.

Grant

The Museum's grant-in-aid from the Department for Culture Media and Sport was increased by 1.4% to £36,469,000 in 2002/03. This included a capital grant of £500,000 towards essential roof repairs. We will continue to press our case for the real increases necessary to keep pace with inflation, fund the initiatives which are central to both our and the Government's agendas and to make inroads into the backlog of under-investment in the infrastructure of the Museum.

Donations and Legacies

Income from unrestricted donations and legacies declined from £1,328,000 to £1,072,000, in part due to a 4% reduction in visits but also a reflection of unusually generous legacies received in 2001/02. This income is directed towards acquisitions, maintaining opening hours and free access for visitors to the Museum.

Income from Services and Sponsorship

The number of major exhibitions staged in 2002/03 was reduced from four to three as a contribution towards eliminating the deficit and improving the alignment between the curatorial and public programmes. Income from services, which is predominantly exhibition ticket income, loan fees and restricted donations, reduced from £4,735,000 in 2001/02 to £3,935,000 in 2002/03 and income from sponsorship reduced from £1,083,000 to £610,000.

Commercial Trading

The Museum's plans for trading growth were held back by the international situation and its impact on tourism and visitor numbers and to a lesser extent by the weakness of the corporate economy. Nonetheless, actions to reduce the product lines and improve the merchandising have led to growth in retailing profits. Following a review of the relative risks and benefits of the activity, the British Museum Company Board determined that the Traveller programme should close in November 2003.

Interest

Active management of cash balances has resulted in investment income and rent receivable increasing from £1,785,000 in 2001/02 to £1,839,000 in 2002/03, despite lower interest rates.

Investment in Curatorial Work

Acquisitions

Although a very limited budget was available for acquisitions the Museum managed to acquire objects valued at £2,238,000. This is largely due to the generous support of donors and organisations including the Heritage Lottery Fund, the National Arts Collection Fund and The Museum Friends. 42% of the acquisitions by value were directly gifted to the Museum, 51% were funded from the Museum's Trust Funds and restricted donations and 7% were funded by the Museum.

Care, Research and Conservation

Care, research and conservation costs reduced from £27,509,000 in 2001/02 to £26,797,000 in 2002/03. Considerable effort is being placed on prioritising curatorial endeavour so as not to put an unreasonable burden on remaining staff.

Public Access and Education

The main savings to date have been achieved with little impact on the quality of services to visitors. These costs reduced by 10% from £18,962,000 in 2001/02 to £17,082,000 in 2002/03.

Trading for Charitable Objectives

Predominantly the costs of temporary exhibitions, the reduction in the programme enabled costs to be reduced by 33% from £2,750,000 to £1,851,000.

Investment Management

It is the Trustees' policy to invest the Museum's Trust Funds so as to maximise the income earned on the funds while maintaining the capital value in real terms. The decline in the equity markets in 2002/03 prevented the aim of maintaining the capital value from being achieved for the second year in succession: the Trust Funds' investments experienced a capital loss of 14.7% while generating income of 2.9%.

Raising Resources for the Forward Programme

The British Museum Development Trust secured new pledges of £3,630,000 and \$128,748 over the last year towards development of the physical and virtual assets of the Museum and staff costs.

The grant from the Department for Culture, Media and Sport included capital funds for roof repairs and lift refurbishments.

The former Post Office building in New Oxford Street that had been purchased for development as a Study Centre was sold for £35,500,000 following cancellation of the project. These funds will be retained for a programme of investment in the physical infrastructure and presentation of the collections in Bloomsbury.

5 Performance Targets

The Three Year Funding Agreement between the Museum and the Department of Culture, Media and Sport establishes key corporate targets for the Museum. These targets for 2002/03 and the actual performance achieved against each of them are set out below:

Performance Indicator	1999-00 Actual	2000-01 Actual	2001-02 Actual	2002-03 Target	2002-03 Actual
Openness					
no. of visitors:	4,368,430	4,589,000	4,813,000	4,300,000	4,623,500
no. of repeat visitors:	1,834,740	1,973,000	2,070,000	1,849,000	1,849,000
no. of child visitors:	655,000	900,000	951,000	850,000	858,000
no. of over 60's visitors:	305,571	321,000	337,000	301,000	323,000
% time open (museum):	57%	69%	69%	69%	69%
no. of web site visits:	1,750,000	3,900,000	4,491,000	4,500,000	6,850,818
% of display collection internet-accessible:	6%	7%	8%	13%	9.7%
no. of Greater London visitors:	480,000	920,000	963,000	860,000	1,063,000
% of visitors very satisfied:	59%	71%	75%	71%	72%
Learning and Engagement					
on-site learners:	287,000	238,350	245,000	240,000	248,000
outreach learners:	n/a	2,700,000	3,234,000	3,100,000	4,713,000
no. of British loan venues:	154	83	86	80	95
no. of foreign loan venues:	84	88	89	65	114
special exhibition visitors:	260,000	197,157	324,000	150,000	159,591
off-site visitors UK:	n/a	75,580	121,000	130,000	130,768
membership numbers:	12,750	13,600	14,364	13,600	15,234
Research and Understanding					
% of collection stored at correct environmental conditions:	68%	70%	71%	70%	71%
% of collection documented to stated international electronic standards:	28%	28%	31%	55.5%	31%
no. of Treasure Act cases processed:	207	349	397	350	422

Performance Indicator	1999-00 Actual	2000-01 Actual	2001-02 Actual	2002-03 Target	2002-03 Actual
Public Recognition					
no. of international visitors to the Museum:	n/a	2,800,000	2,647,000	2,365,000	2,404,220
no. of visitors to international exhibitions:	n/a	748,000	563,000	500,000	611,104
no. of major gallery & exhibition sponsorships:	n/a	4	4	3	4
no. of diplomatic/ministerial visits to the Museum:	n/a	34	50	45	48
growth in income per visitor:	10%	13%	36%	3%	-3%
Effectiveness					
G-I-A per visitor (actual and virtual):	£5.67	£3.76	£3.60	£3.70	£2.99
average days lost sick per employee:	10	9	8.8	8	8.1

Openness

Nearly all performance targets were exceeded.

The numbers of visitors coming to see the physical collection decreased by 4%, due to the reduction in the international tourism market, but this had been expected.

The number of visitors to the Museum's virtual collection and knowledge base through its websites rose by a remarkable 52%. 72% of visitors when surveyed described themselves as very satisfied with their visits, compared with the target of 71%. It is encouraging that, despite significant cuts in Museum expenditure, the measure seems to be rising again following a dip in Summer 2002.

The number of child visitors exceeded the target, despite a small reduction in the proportion of child visitors measured by visitor survey and some fall off in international school visits due to the international situation.

The number of collection items accessible to the public on the COMPASS website increased by 16% in absolute numbers over the year, well ahead of the 4% increase required by the performance target. However, the target is calculated as the number of items divided by the size of the display collection. As the size of the display collection has been reassessed as larger than assumed when the target was set, the actual percentage reported for the indicator is significantly less.

Learning and Engagement

The number of on-site learners increased further.

The number of off-site learners is well ahead of target, due to the success of the Ancient Civilisations websites as teaching and learning tools. The new India website is set to emulate the popularity of the Egypt and Mesopotamia sites.

The loan programme to share the depth of the Museum's collection with its regional and international partners and their visitors has grown as a result of improved collaboration and recognition of how we can complement our partners' strengths. Over 2,500 separate items were loaned out in 2002/03. The programme is quite resource intensive, however, so some restrictions on further growth may be necessary while the Museum is operating with lower staffing levels

Special exhibition visitor numbers reflect the benefits of strong themed, well planned and accessible exhibitions, although comparison with the 2001/02 figures highlights the effect of the reduction in the 2002/03 exhibition programme. Continuing growth in the number of British Museum Friends members demonstrates the breadth of their programme and their warm relationship with the Museum.

Research and Understanding

Care of the collection stands as the Museum's prime purpose, so it is encouraging to report no loss of quality of the storage facilities, despite a reduction in expenditure on conservation.

Easy access by researchers to information on the collection also lies at the heart of the Museum's purpose. The number of collection items whose core registration details are recorded on the MERLIN collection database increased only slightly in absolute numbers over the year, compared to the 2% implicit in the performance target. There has been a conscious effort to consolidate the progress made to date by developing the quality of registration data before making further big advances in the number of entries. Images of objects can now be held on a digital assets database, linked to the corresponding MERLIN registration records.

The Museum's statutory role in the operation of the Treasure Act is now a significant activity in its own right. In 2002/03 curators processed twice as many finds as in 1999/00.

Public Recognition

All targets were exceeded apart from the growth in income per visitor. International recognition of the British Museum is amply demonstrated by the number of foreign visitors to the Museum, the number visiting its foreign touring exhibitions and the number of ministerial and diplomatic visits to the Museum in London. The Museum makes a significant contribution to international diplomacy, not only through hosting formal visits to its premises but also through the professional cultural links sustained by its curators often, as exemplified by the practical help provided to staff in the national museums in Baghdad and Kabul, with colleagues in countries which are otherwise diplomatically isolated.

The decline in income per visitor reflects a decrease in the proportion of foreign tourists in the Museum who, on average, are higher spenders than UK visitors. In common with other visitor attractions, hotel groups and airlines, the Museum has been affected by the depressed state of the international tourism market.

Effectiveness

Grant-in-Aid per visitor displays a further reduction. As a crude indicator of the cost/benefit to the Government of its annual investment in the Museum, both in absolute terms and in comparison with other national museums and galleries this demonstrates the Museum's cost effectiveness.

The average sick leave reported per person continues to decrease each year, although it did not quite achieve the 2002/03 target.

6 Looking Ahead

Reserves

The Museum's free reserves at 31 March 2003 are represented by the unrestricted revenue and capital reserves:

	31 March 2003 £m	31 March 2002 £m
Total reserves	402.5	378.0
less permanent endowment funds	(9.4)	(10.8)
less capital funds tied up in buildings, galleries, plant, fixtures and post March 2001 acquisitions	(324.1)	(310.4)
less restricted revenue funds	(7.0)	(7.7)
less funds required for working capital in subsidiaries	<u>(2.4)</u>	<u>(2.4)</u>
Unrestricted revenue reserves	11.8	12.8
Unrestricted capital reserves and estates proceeds	47.8	33.9

The Museum chose to limit the depletion of its unrestricted revenue reserves at the expense of its unrestricted capital reserves. This was achieved by funding normal capital expenditure from investment property sales proceeds rather than from income, leaving income to be almost entirely directed towards revenue expenditure. Thus unrestricted revenue reserves were depleted by only £1.0m, despite charging the £7.2m costs of its current redundancy programme and incurring a £0.5m loss on investments of unrestricted revenue Trust Funds. Unrestricted capital reserves although depleted by £6m by this action were boosted by the profits from sale of properties and by transfers from restricted capital reserves.

It is the Board's policy that unrestricted revenue reserves should not fall below £2m until the deficit is eliminated. The unrestricted and undesignated capital reserves are required for a programme of investment in the physical infrastructure and presentation of the collections in Bloomsbury.

The King's Library

The Museum will reopen the King's Library in December 2003 in one of London's finest architectural settings. The restoration of the Library and the opening of the new permanent exhibition *Enlightenment: Discovering the world in the 18th century* forms the centrepiece of the Museum's 250th anniversary celebrations. The King's Library formerly housed the library of George III - now transferred to the British Library in St Pancras - and is the earliest part of the present museum building. A Grade I listed interior, it was constructed in the 1820s and remains an unspoilt architectural gem, the finest and largest neo-classical interior in London. This unique space will be fully restored and reopened as 'Room 1' of the British Museum. The exhibition - an intellectual complement to this historic and spectacular visual setting - will focus on the British Enlightenment during the eighteenth and early nineteenth centuries, the great age of discovery and learning into which the Museum itself was born in 1753.

The King's Library development is funded by donations from the Rt. Hon. Simon Sainsbury, the Wolfson Foundation, Francis Finlay, the Heritage Lottery Fund, the Pidem Trust, the British Museum Friends, the Ellerman Foundation and an anonymous donor.

The Wellcome Gallery

2003 will also mark the opening of a new gallery funded by the Wellcome Trust. It will present a comparative anthropological view of notions of wellbeing from around the world. In particular it will make connections between the every day lives of people of different cultures. The gallery's content will illustrate how communities celebrate good fortune and diagnose, treat and ward off problems they encounter. There will be striking images of gods, spirits and ancestors, masks and costumes, instruments and substances used to alter states of consciousness.

The Wellcome Gallery and enabling works are funded by a £5.35 million donation from the Wellcome Trust.

Future

The Museum has met most of its performance targets, albeit at the expense of recruitment restrictions, scheduled closure of some galleries, an increasing backlog of capital investment and depletion of its reserves. The future of the Museum depends on its success in progressing towards its five aims of openness, learning and engagement, research and understanding, public recognition, and effectiveness. The immediate priorities for such progress are:

- to reposition the Museum publicly at the heart of the UK's cultural and educational life
- to improve performance over the two years 2003/04 and 2004/05 after delivering the necessary deficit savings in 2003/04
- to deliver key Museum-wide projects in 2003/04 to time and budget
- to develop the Museum through well managed investment.

7 Report of the Audit Committee

The task of the Audit Committee is:

- to monitor on behalf of the Board that:
 - major risks to the strategy are identified and are being managed
 - the Director and staff are acting within the terms set down by law, regulation, other guidance and within the authority given by the Board, with efficiency and probity
 - resources are being used effectively and efficiently
 - the accounting process has integrity and effective internal controls are in place
 - reports received under the Museum's policies are investigated and acted upon.
- to review and make recommendations to the Board on the acceptability of the Museum's annual accounts for signature and their laying before Parliament in accordance with the Acts
- to review and provide assurance to the Board concerning the Statement on the System of Internal Control.

The Audit Committee reports to the Board and during the year covered a range of topics including the following:

- the Museum's risk register and management's assessment of and response to key risks
- documentation setting out the obligations, authorities and delegations of the Museum and the Director
- reports and minutes available to the Committee that may ensure adequate oversight of the financial and operational performance of the Museum in-year and across the period of the plan
- assurance processes for the Museum's subsidiaries
- application of the findings of the Smith Report to a public service body
- the scope, authority and resourcing of the Museum's internal audit function.

Neil MacGregor Accounting Officer
Sir John Boyd Trustee
David Lindsell Trustee

10 July 2003

FOREWORD TO THE ACCOUNTS

Basis of Preparation of Financial Statements

The Financial Statements follow the form directed by the Secretary of State with the consent of the Treasury in accordance with sections 9(4) and 9(5) of the Museums and Galleries Act 1992; in essence to meet the requirements of the accounting standards issued by the Accounting Standards Board and the Statement of Recommended Practice *Accounting for Charities* (SORP) in so far as those requirements are appropriate. A copy of the Accounts Direction may be obtained by contacting the Director of Finance at the British Museum.

Accounting Policies and Practices

The Museum is complying with the requirements of the Charities SORP, whilst stressing the view that the Income and Expenditure Account, taken together with the Statement of Funds in note 15, continues to provide the clearest expression of its accountability as an organisation providing services to the public. The related Statement of Financial Activities blends capital and revenue items, when the Museum is accountable for them separately to a large degree, and it obscures the value attributable to each year of donations and sponsorship. The Museum is complying with Accounting Standards Board requirements to capitalise the value of all new acquisitions to the collection from 1 April 2001. The Museum is not required to capitalise the value of the existing collection and has not sought to do so.

Results for the Year

The consolidated income and expenditure account reports an operating surplus of £5,311,000 before investment losses of £997,000, redundancy costs of £7,182,000, final division of the Shaw Fund with the British Library (£371,000) and profit on sale of properties of £19,712,000. In a normal year, between £4m and £6m capital expenditure is funded from the grant and from self-generated income. In 2002/03 this capital expenditure was instead funded out of capital reserves from the proceeds of investment property sales in 2000/01. The use of these proceeds to fund capital expenditure for the three years to 31 March 2004 was authorised by DCMS and Treasury. By thus releasing almost all other income and directing it towards revenue expenditure the Museum is managing to carry through restructuring without excessively depleting its unrestricted revenue reserves. Meanwhile, short term actions were also taken to contain other expenditure, including marketing costs, maintenance costs and recruitment to fill vacancies. The reduction in unrestricted revenue reserves was thus limited to just £0.9m. Further details may be found in section 4 of the Trustees' Annual Report.

Background Information

The British Museum's principal activity is to hold for the benefit of humanity a collection representative of world cultures and ensure that the collection is housed in safety, conserved, curated, researched and exhibited. The Museum was founded by Act of Parliament in 1753 to care for the collections of Sir Hans Sloane and is now governed in accordance with the British Museum Act 1963.

Going Concern

The British Museum receives grant-in-aid from the Department for Culture, Media and Sport. The Department has confirmed the level of funding it will make available for the two years ending 31 March 2004 and 2005. It is the budgetary policy of the Board to maintain adequate reserves, to budget over a period of years so as to balance income with expenditure and to fund capital expenditure in full, so that the Museum is able to present a continuing programme of work consistent with its aims and resources.

In each of the last three years the Museum's operations have consumed unrestricted reserves. These losses have been made good by exceptional profits from property sales and reclassification of other reserves. The cost reduction actions initiated since Autumn 2001 are expected to eradicate the underlying income and expenditure deficit that is the cause of this, by 2004/05. These actions are now substantially complete and will ensure compliance with the Board's budgetary policy. Accordingly, the Trustees consider it appropriate to prepare the Museum's financial statements on the going concern basis.

The Board of Trustees

The governing body is the Board of Trustees whose members are appointed for fixed terms of service and are listed in *Appendix 1*. They are non-executive and unpaid. The Board met on six occasions between 1 April 2002 and 31 December 2002. In November 2002 Trustees undertook a review of governance within the Museum, as a result of which they adopted new governance policies, principles and procedures. These incorporate a greater focus on delegated authorities and established the tasks, authorities and processes of three subcommittees of the Board: the Standing Committee, the Audit Committee and the Nominations and Governance Committee. The Board now meets quarterly to lead and control the Museum. Matters for the Board's decision and the respective responsibilities of the Board, Trustees' Committees and Management are clearly defined. The Board has access to independent financial advice and the Secretary ensures that Board procedures are followed.

In particular, the Board:

- appoints the Director, subject to the approval of the Prime Minister and determines his contract of employment. The Board reviews the Director's performance annually
- seeks to give a full account of the Museum's affairs in this Report and Financial Statements which it publishes annually
- takes due cognisance of the Financial Memorandum and Management Statement agreed with the DCMS and of the Three Year Funding Agreement
- establishes policies and strategy covering the major aspects of the Museum's work
- agrees the Plan drawn up by management to fulfil the policies
- monitors the achievement of the Plan.

The Accounting Officer

Mr Neil MacGregor took on the responsibilities of Accounting Officer on his appointment as Director on 1 August 2002. Mr Christopher Jones, Director of Operations, was the Accounting Officer from December 2001 until his retirement in July 2002. The Accounting Officer is responsible under the Board for the overall organisation, management and staffing of the Museum and its procedures in financial and other matters, including conduct and discipline. The Accounting Officer is responsible to Parliament and to the Accounting Officer of DCMS for resources under his control. The essence of the role of Accounting Officer is a personal responsibility for the propriety and regularity of the public finances for which he is answerable, for the keeping of proper accounts, for prudent and economic administration, for the avoidance of waste and extravagance and for the efficient and effective use of all resources under his charge. The Accounting Officer has a responsibility to see that appropriate advice is offered to the Board on all these matters. These include the provision of assurances contained in the Report and Financial Statements.

Internal Control

Both the Board and the Accounting Officer have ultimate responsibility for the system of internal control applied at the Museum. The system employed is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The main components of the system are: a defined Trustees' Board and Committee structure, a defined Management Board and Committee structure, a set of policies agreed by the Board, a risk management process, a financial reporting and monitoring process and an internal audit function.

Connected Entities

The British Museum Company Ltd, a registered company wholly owned by the Trustees, is an exempt charity that, with its subsidiary BM Ventures Ltd, acts as the Museum's main trading and publishing arm. It is separately administered and certain of its Directors are Trustees of the Museum (a list of Directors is set out in *Appendix 1*). The company made an operating profit of £380,000 in 2002/03 (£333,000 in 2001/02) and made a Gift aid donation of £378,000 to the Museum.

The British Museum Great Court Ltd, a registered company wholly owned by the Trustees, acts as the Museum's trading arm for catering and other income generating activities other than retailing, within the Museum. Its Directors are senior employees of the Museum (a list of Directors is set out in *Appendix 1*). During the year the company made an operating profit of £956,000 (£885,000 in 2001/02) and made a Gift Aid donation of £997,000 to the Museum.

The British Museum Development Trust (BMDT), an exempt charitable trust, acts as the Museum's fundraising arm. It is separately administered and certain of its Trustees are Trustees of the Museum. During the year, BMDT raised £5,246,000 for the Museum (£4,329,000 in 2001/02) and the Museum made a grant to the Trust of £726,000 (£812,000 in 2001/02 to cover running costs. A list of the BMDT Trustees can be found in *Appendix 1*.

The American Friends of the British Museum (AFBM) is incorporated for charitable purposes in New York. It is independent of the Museum and a majority of its Board Members are not Trustees or senior employees of the Museum or of the BMDT. During the year it made grants of £359,000 to the Museum (£2,128,000 in 2001/02).

British Museum Friends is a registered charitable trust. It is separately administered and independent of the Museum and a majority of its Council are not Trustees or senior employees of the Museum or of other connected entities. During the year it made grants of £267,000 to the Museum (£411,000 in 2001/02).

Trustees and Senior Staff Transactions 2002/03

Mr Tom Phillips painted a portrait of the retiring Director, Dr Robert Anderson, at a cost to the Museum of £25,000. The Museum also contributed £15,677 to Churchill College Cambridge towards secretarial support for the Chairman. Otherwise, none of the Trustees, members of key management, staff or persons connected with them has undertaken any material transactions with the Museum in 2002/03.

Staff Policies

The British Museum endeavours to safeguard the quality of its work by ensuring staff of the highest calibre are recruited, that they are well trained, well managed and work in an environment in which they can give of their best.

The Museum Management Board meets semi-monthly to receive and consider reports and recommendations for action or decision to the Director and to ensure that he is provided with timely, comprehensive, effectual information, advice and assistance on matters of strategic significance including; the linkage between the Museum's management and Trustees; progress against the Museum's Plan; Policy and Strategy development; progress on major projects; the impact of and compliance with new and current legislation; expenditure monitoring; identification of corporate priorities; management of risk; ad-hoc high level issues. Minutes of these briefings are available to staff through the Museum's intranet.

The Director holds informal weekly meetings open to all staff, which act as an initial step in team briefings along departmental lines for the dissemination and discussion of topical issues, Trustees and Management Board decisions and staff concerns. Minutes of Management Board meetings are placed on the Museum intranet and office notices are regularly issued to advise staff of events, organisational changes, common procedures and where to find information. A consultative committee meets quarterly to allow matters raised by staff to be aired between management and union representatives; employees are encouraged to discuss with their representatives any matters about which they are concerned and factors affecting the Museum.

The Museum Plan, normally revised annually, is made available in summary format on the Museum's website. Employees are encouraged to propose suggestions aimed at improving the Museum's performance. The Director held open meetings with staff to explain his restructuring plans and proposals for development of the future programme.

The British Museum is an equal opportunities employer. It recruits people based on merit and seeks to recruit from the diverse communities in London and nationally. It has a published HR policy on the recruitment, employment and development of staff regardless of their gender, ethnicity, sexual orientation or disability. The Museum also has procedures to adjust work or the environment if appropriate when a person's circumstances or abilities change.

The Health and Safety Office has maintained a high level of performance and awareness in the organisation and continues to achieve improvements in health and safety practice and awareness.

A confidential employee assistance programme, offering independent professional help on personal issues whether work related or otherwise, is available to all staff and has had a steady take up since its introduction in 2001.

Payment Policies

The Museum abides by the Better Payment Policy and aims to settle bills within 30 days or by the due date. In 2002/03 it paid 73% of invoices within the target.

Changes in Fixed Assets and Future Developments

In the course of the year two properties were disposed of : a former Post Office sorting office in New Oxford Street sold for £35,500,000 (net book value £16,200,000) and a derelict warehouse in Hoxton, sold for £890,000 (net book value £128,000). The proceeds of these sales are being held for a programme of investment in the physical infrastructure and presentation of the collections in Bloomsbury.

Neil MacGregor Accounting Officer
Sir John Boyd Trustee
David Lindsell Trustee
10 July 2003

STATEMENT OF TRUSTEES' AND ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Section 9 (4) and (5) of the Museum and Galleries Act 1992, the Trustees of The British Museum are required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Culture, Media and Sport with the consent of the Treasury. The accounts are prepared to show a true and fair view of the Museum's financial activities during the year and of its financial position at its year end.

In preparing the Museum's accounts the Trustees are required to:

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

The Accounting Officer for the Department for Culture, Media and Sport designated Neil MacGregor as the Accounting Officer for the Museum, with effect from 1 August 2002. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by the Treasury and published in Government Accounting.

Neil MacGregor Accounting Officer
Sir John Boyd Trustee
David Lindsell Trustee
10 July 2003

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

As Accounting Officer I, Neil MacGregor, have responsibility for maintaining a sound system of internal control that supports the achievement of the British Museum's objectives whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting and for ensuring compliance with the requirements of the British Museum's Management Statement and Financial Memorandum.

As Chairman of the Audit Committee of the Board of Trustees I, Lord Powell of Bayswater, have delegated responsibility from the Board of Trustees for satisfying myself and the Board that such a sound system of internal control is maintained within the British Museum.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Museum's objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

We also have responsibility for reviewing the effectiveness of the system of internal control. The system of control is based on a framework of management processes including corporate policies, regular management information, financial regulations, administrative procedures and a system of delegation and accountability. The Museum has established the following processes:

- a Trustees' Board and Committee structure with defined roles, responsibilities and principles for the code of conduct of business:
 - the Board of Trustees meets quarterly to consider the strategy for achieving the declared aim of the Museum and to hold the Director to account for its achievement;
 - the Trustees' Standing Committee meets monthly to discharge the functions of the Board between the quarterly Board meetings, including the review of the financial position of the Museum
 - the Trustees' Audit Committee meets four times a year and is responsible, on behalf of the Board, for monitoring risk management, internal controls, the efficiency, probity and regularity of management of the Museum and its subsidiary bodies, for the oversight of external reporting and for monitoring the relationship with the external auditors;
 - the Trustees' Nominations and Governance Committee is responsible for recommending Board and Board Committee appointments and for providing assurance to the Board on the operation of the governance policy and principles adopted by the Board in November 2002;

- a Management Board and Committee structure with defined responsibilities:
 - the Museum Management Board, chaired by the Accounting Officer, meets fortnightly to formulate, implement and keep under periodic review the Museum's policies, strategy and plans, to identify and manage significant risks to the strategy, to maintain effective management structures, procedures, delegated authorities and assurance processes and to determine conflicting priorities for resource allocation;
 - the Museum Management Group, also chaired by the Accounting Officer, meets monthly to advise on risks and to review and recommend changes to Museum policies and practice;
 - other management sub groups and project groups are formed from time to time to advise the Director on specific topics or projects (e.g. building and space planning, public programmes and operations);

- a set of policies agreed by the Board of Trustees and a set of procedural guidelines agreed by the Management Board:
 - policies on security, health and safety, acquisitions, display, finance and control, human resources, documentation storage and conservation, loans, ethics, public policy, information and risk management and a code of conduct for staff;
 - procedures on fraud and whistleblowing;
 - appropriate capital investment and project control disciplines;
 - appropriate procurement policies and practice guidelines;
 - an acquisitions approval process;

- a risk management process to recognise and register key risks to achievement of the Museum's strategy, which is maintained and reviewed by the Management Board and updated by a process of ongoing assessment:
 - one-to-one interviews held with departmental managers to identify the risks to achievement of their plans and the control processes which manage those risks;
 - risk analysis embedded as a component of the formal gateway process for project control;
 - implementation of a robust prioritisation methodology based on risk ranking;
 - regular reporting of performance against key targets to the Management Group, Management Board and the Board of Trustees;
 - strict controls and procedures are in place covering project and revenue expenditure that can be incurred by managers and staff on behalf of the Museum;

- a financial reporting and monitoring process that informs management and Trustees on a timely basis:
 - a comprehensive budgeting system with annual budgets reviewed and agreed by the Board of Trustees;
 - preparation of regular financial reports of income and expenditure against forecasts for the Management Group, the Management Board and the Board of Trustees;

- an internal audit function whose regular reports to the Audit Committee and to the Accounting Officer, to Government Internal Audit Standards, include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Museum's systems of internal control together with recommendations for improvement.

Our review of the effectiveness of the system of internal control is informed by the work of the internal auditors, by the Audit Committee which has oversight of the internal audit function, by the executive managers within the body who have responsibility for the development and maintenance of the financial control framework, and by comments made by the external auditors in their management letter and other reports.

Before producing this statement, we have reviewed, in conjunction with the Audit Committee where appropriate, the following:

- the results of the stewardship reporting process through which cost centre budget holders confirm compliance with their delegated responsibilities;
- the results of consideration of risks and risk management by the Management Board;
- the scope, authority and resourcing of internal audit and the internal audit Annual Assurance report.

Taken together these reports indicate:

- a number of high risks to achievement of the Museum's strategy during the current period of change;
- progressive adoption of risk management across the Museum;
- the system of risk review and management is reasonably well embedded within the Museum but there is scope for further improvement;
- managers recognise their delegated responsibilities and comply with policies and procedures;
- a comprehensive framework for assurance;
- a sustained reduction in the number of control weaknesses encountered by internal audit
- weaknesses that are identified by internal audit are being addressed.

In the coming year the Museum intends to develop further its internal control processes through arranging a facilitated workshop on the management of risks, to ensure that managing risks become standard operational practice at all levels.

In our view, the information received was sufficient to enable us to review the effectiveness of the Museum's system of internal control in accordance with the recommendations of the Turnbull Committee.

Neil MacGregor
Lord Powell of Bayswater

Accounting Officer
Chairman of the Audit Committee of the Board of Trustees

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

I certify that I have audited the financial statements on pages 32 to 55 under the Museums and Galleries Act 1992. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed and current assets at their value to the business by reference to current costs and the accounting policies set out on pages 37 and 38.

Respective responsibilities of the Trustees, the Accounting Officer and Auditor

As described on page 26, the Trustees and the Director of the British Museum, as the Accounting Officer, are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Trustees and the Director are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Museums and Galleries Act 1992 and directions made by the Secretary of State thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the British Museum has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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

I review whether the statement on pages 27 to 29 reflects the British Museum's compliance with Treasury's guidance 'Corporate Governance: Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with the United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Trustees and the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the British Museum's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Audit opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the British Museum and Group at 31st March 2003 and of its incoming resources and application of resources, including its income and expenditure, and cash flows, for the year then ended and have been properly prepared in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture, Media and Sport; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

14 July 2003

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

Supplementary Statement by the Comptroller and Auditor General

The maintenance and integrity of the British Museum's website is the responsibility of the Museum's Accounting Officer; my work does not involve consideration of these matters and accordingly I accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Appendix 1

The Board of Trustees

Sir John Boyd KCMG
HRH The Duke of Gloucester KG, GCVO ⁽¹⁾
Mr Charles Allen-Jones
Mr Hasan Askari
Mr Nicholas Barber
Dame Gillian Beer DBE, FBA
(retired 20 September 2002)
Lord Browne of Madingley
(appointed Deputy Chairman 31 December 2002)
Professor Barry Cunliffe ⁽⁴⁾
The Rt Hon Countess of Dalkeith
Sir Michael Hopkins CBE, RA, RIBA
Sir Joseph Hotung
Professor Martin Kemp FBA

Mr Philip Lader ⁽⁶⁾
Mr David Lindsell
Mr Christopher McCall QC
Mr Tom Phillips RA ⁽²⁾
Lord Powell of Bayswater ⁽⁶⁾
Sir Martin Rees FRS
(retired 27 August 2002)
Dr Anna Ritchie
Mr Eric Salama
Professor Jean Thomas CBE, FRS ⁽⁵⁾
Sir Keith Thomas FBA ⁽³⁾
Sir John Tusa ⁽⁶⁾
(appointed Deputy Chairman 31 December 2002)

Fifteen Trustees are appointed by the Prime Minister. The remaining Trustees are appointed by:
⁽¹⁾ the Sovereign
⁽²⁾ the Royal Academy

⁽³⁾ the British Academy
⁽⁴⁾ the Society of Antiquaries of London
⁽⁵⁾ the Royal Society
⁽⁶⁾ the Trustees

Trustees= Committees and Membership

The Chairman of the Trustees is an *ex officio* member of all Committees

Until 1 January 2003-

Public Policy

Mr Nicholas Barber (*Chairman*)
Mr Eric Salama
Sir Michael Hopkins
The Rt Hon Countess of Dalkeith
Professor Martin Kemp
Mr Hasan Askari
Mr Tom Phillips
Mr John Tusa

Scholarship

Sir Keith Thomas (*Chairman*)
Dame Gillian Beer
Professor Barry Cunliffe
Dr Anna Ritchie
Mr Christopher McCall (*from 29.9.01*)

Finance and Planning*

Mr David Lindsell (*Chairman*)
Mr Nicholas Barber
Lord Browne
Sir Keith Thomas
Sir Joseph Hotung
Dame Gillian Beer

*The Museum is required under the Court Order of 1983 to retain an independent financial adviser; during 2002-2003 Mr J Manser served in this capacity at the request of the Trustees.

Audit and Governance

Lord Browne (*Chairman*)
Mr David Lindsell
Mr Nicholas Barber
Mr Christopher McCall
Dame Gillian Beer
(*until 20 September 2002*)
Lady Dalkeith

The Study Centre

Sir Keith Thomas
HRH The Duke of Gloucester
Sir Michael Hopkins
Mr David Lindsell
Mr Charles Allen-Jones
Mr Nicholas Barber (*ex-officio*)

Remuneration and Nomination

Mr Graham Greene (*Chairman until 17.6.02*)
Sir John Boyd (*Chairman from 18.6.02*)
Mr Nicholas Barber
Professor Jean Thomas
Sir Martin Rees
Mr David Lindsell
Mr John Tusa
Mr Hasan Askari (*from 29.9.01*)

From 1 January 2003-

Standing Committee

Sir John Boyd (*Chairman*)
Lord Browne of Madingley
Mr Nicholas Barber
Lady Elizabeth Dalkeith
Sir Joseph Hotung
Mr David Lindsell
Sir Keith Thomas

Audit Committee

Lord Powell (Chairman)
Mr Charles Allen-Jones
Professor Martin Kemp
Mr Christopher McCall
Hon. Phillip Lader

Nomination and Governance

Sir John Boyd (Chairman)
HRH The Duke of Gloucester KG, GCVO
Dr Anna Ritchie
Sir Michael Hopkins
Mr Hasan Askari
Sir John Tusa

Departmental Trustees

Until 1 January 2003-

Department

Coins and Medals
Education Service
Ancient Egypt and Sudan
Ethnography
Greek and Roman Antiquities
Japanese Antiquities
Medieval and Modern Europe
Oriental Antiquities

Trustee

Dr Anna Ritchie
Professor Martin Kemp
Dame Gillian Beer (*until 20 September 2002*)
Mr Tom Phillips
Mr Nicholas Barber
Sir John Boyd

Mr Charles Allen-Jones

Prehistory and Early Europe
Prints and Drawings
Scientific Research
Conservation
Ancient Near East

Professor Barry Cunliffe
Sir Keith Thomas
Professor Jean Thomas
Sir Martin Rees (*until 27 August 2002*)
Sir Joseph Hotung

Trustee membership of related Councils and Boards

British Museum Company Limited: Board of Directors

Mr Nicholas Barber (*Chairman*)
Barry Cunliffe
Sir John Tusa
Dame Gillian Beer (*until 20 September*)
Mr Eric Salama

British Museum Development Trust: Council

Sir John Tusa
Mr Charles Allen-Jones
Lord Browne of Madingley
Sir John Boyd

British Museum Friends: Council

Mr Nicholas Barber (*Chairman*)
The Rt Hon Countess of Dalkeith

Official Addresses

Principal address:	The British Museum, Great Russell Street, London WC1B 3DG
Study collections/storage:	Franks House, 38B56 Orsman Road, London N1 5QJ Blythe House, 23 Blythe Road, London W14 0PQ 21B31 New Oxford Street, London WC1A 1AA (<i>until August 2002</i>)
British Museum Great Court Limited:	The British Museum, Great Russell Street, London WC1B 3DG
British Museum Company Limited:	46 Bloomsbury Street, London WC1B 3QQ
British Museum Development Trust:	91 Great Russell Street, London WC1B 3PS
Investment Managers:	Lazard Asset Management Ltd, 21 Moorfields, London EC2P 2HT
Bankers:	The Bank of England, Threadneedle Street, London EC2R 8AH National Westminster Bank Plc, 214 High Holborn, London WC1V 7BX Paymaster (1836) Ltd, Russell Way, Crawley, West Sussex RH10 1UH
Solicitor:	Mr Tony Doubleday, Museum Secretary, British Museum

24 June 2003

British Museum Financial Statements for the year ended 31 March 2003

Consolidated Income and Expenditure Account

For the year ended 31 March 2003

	Notes	2003 £000s	2002 £000s
Income			
Donations, legacies and Core Funding			
Grant-in-aid	2(a)	36,469	35,969
Donations and legacies		1,027	1,328
Activities in the furtherance of the Charity's objectives	8	3,935	6,017
Activities for Generating Funds			
Sponsorship		610	1,083
Commercial Trading Activities	10(c)	15,848	15,564
Investment income and rent receivable	3	1,839	1,785
Less Income allocated to Capital Expenditure		(655)	(493)
		59,073	61,253
Expenditure			
Costs in furtherance of the Charity's Objectives		45,730	49,221
Costs of Generating Funds			
Fund raising and publicity		761	708
Commercial Trading Activities	10(c)	15,164	14,939
Investment Management Costs		20	17
Management and administration of the charity		382	362
Less depreciation allocated to Capital Funds		(8,295)	(7,454)
	5(b)	53,762	57,793
Surplus before loss on investments and exceptional item :	5(c) *	5,311	3,460
Losses on investments	5(d)	(997)	(141)
Exceptional Item: Split of Shaw Fund		(371)	(3,458)
Exceptional Item: Early Retirement Costs	13	(7,182)	0
Exceptional Item: Profit on sale of Properties		19,712	0
Surplus/(Deficit) for the year		16,473	(139)
Transfers:			
From Restricted Capital Funds		985	455
(To)/From Designated Capital Funds		(18,928)	6,948
Surplus for the year after transfers		(1,470)	7,264
Deferred Restricted Income		(319)	792
Revenue Reserves at 1 April 2002		22,938	14,882
Revenue Reserves at 1 April 2003	15	21,149	22,938

* Taken on its own the operating surplus of £5,311,000 (2002, £3,460,000) does not provide a complete picture of The Museum's financial position. £14,025,000 proceeds from the sale of the investment estate in 2000-01 are being applied to fund designated capital expenditure as authorised by DCMS and HM Treasury. This has released sufficient resources to fund restructuring from income and eliminate operating deficits. £4,209,000 (2002, £4,602,000) of the sales proceeds was allocated for this purpose. Without such an agreement the Consolidated Income and Expenditure Account would have shown that the Museum had funded £4,864,000 (2002, £5,095,000) of capital spend from income and had an operating surplus of £1,102,000 (2002 a deficit of £1,142,000).

The above figures do not reflect an increase in value of £9,959,000 arising from a revaluation of the Museum's fixed assets at 31 March 2003 (2002, £9,731,000) as it is credited to capital funds and has no impact on the Museum's operating costs. The revaluation is reflected in the Statement of Financial activities and hence no Statement of total Recognised Gains and Losses is presented. Full details are given in Note 7(c).

The notes on pages 37 to 51 form part of these accounts
All amounts relate to continuing operations

Consolidated Statement of Financial Activities

For the year ended 31 March 2003

	Notes	Unrestricted Funds £000s	Restricted Funds £000s	Permanent Endowment Funds £000s	Total 2003 £000s	Total 2002 £000s
Incoming Resources						
Donations, legacies and Core Funding						
Grant-in-aid	2(a)	36,469	0	0	36,469	35,969
Donations and legacies		1,027	6,044	700	7,771	23,457
Activities in the furtherance of the Charity's objectives		2,109	1,958	0	4,067	6,938
Activities for Generating Funds						
Sponsorship		35	200	0	235	917
Commercial Trading Activities	10(c)	15,848	0	0	15,848	15,564
Investment income and rent receivable	3	1,839	1,249	0	3,088	2,046
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		57,327	9,451	700	67,478	84,891
Resources Expended						
Costs in furtherance of the Charity's Objectives		35,044	10,686	0	45,730	49,221
Costs of Generating Funds						
Fund raising and publicity		752	9	0	761	708
Commercial Trading Activities	10(c)	15,164	0	0	15,164	14,939
Investment Management Costs		9	11	0	20	17
Management and administration of the charity		342	40	0	382	362
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	5(a)	51,311	10,746	0	62,057	65,247
Net incoming resources-surplus	5(c)	6,016	(1,295)	700	5,421	19,644
Notional Costs						
Cost of capital	6	10,572	0	0	10,572	12,749
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net incoming/(outgoing) resources after notional costs		(4,556)	(1,295)	700	(5,151)	6,895
Reversal of notional costs		10,572	0	0	10,572	12,749
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net incoming resource-surplus	4	6,016	(1,295)	700	5,421	19,644
Losses on investment assets	5(d)	(498)	(499)	(2,068)	(3,065)	(359)
Revaluation of fixed assets	7(a)	131	9,828	0	9,959	9,731
Exceptional Item: Split of Shaw Fund	15	(371)	0	0	(371)	(3,458)
Exceptional Item: Early Retirement Costs	13	(7,182)	0	0	(7,182)	0
Exceptional Item: Profit on sale of Properties		19,712	0	0	19,712	0
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net movement in funds		17,808	8,034	(1,368)	24,474	25,558
Fund balances brought forward at 1 April 2002		42,292	324,944	10,767	378,003	352,445
Transfers between funds		(1,404)	1,404	0	0	0
Fund balances carried forward at 31 March 2003		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		58,696	334,382	9,399	402,477	378,003

All operations of the Museum continued throughout both periods and none were discontinued in either period. The British Museum has no recognised gains and losses other than those above and consequently no separate statement of total recognised gains and losses has been presented.

The notes on pages 37 to 51 form part of these accounts.

Consolidated Balance Sheet

As at 31 March 2003

	Notes	2003 £000s	2002 £000s
Fixed Assets			
Tangible assets	7(a)	323,748	327,295
Investments	9(a)	15,285	21,143
		<u>339,033</u>	<u>348,438</u>
Current Assets			
Stock-goods for resale		2,230	2,511
Debtors	11	4,514	13,694
Short term investments	9(b)	65,743	22,000
Cash at bank and in hand		8,111	6,358
		<u>80,598</u>	<u>44,563</u>
Creditors: amounts falling due within one year	12	(15,839)	(14,416)
Net current assets		<u>64,759</u>	<u>30,147</u>
Provision for liabilities and charges: Early retirement provision	13	(1,315)	(582)
Net Assets		<u>402,477</u>	<u>378,003</u>
Represented by:			
Capital Funds			
Permanent Endowments	15	9,399	10,767
Restricted Funds		327,434	317,181
Unrestricted Funds		44,495	27,117
		<u>381,328</u>	<u>355,065</u>
Revenue Funds			
Restricted Funds	15	6,948	7,763
Unrestricted Funds		14,201	15,175
		<u>21,149</u>	<u>22,938</u>
Total Funds		<u>402,477</u>	<u>378,003</u>

The notes on pages 37 to 51 form part of this account

Accounting Officer

Trustee

Trustee

Museum Balance Sheet

As at 31 March 2003

	Notes	2003 £000s	2002 £000s
Fixed Assets			
Tangible assets	7(b)	320,958	324,646
Investments	9(a)	15,285	21,143
Investment in subsidiaries	10(a)	500	500
		<hr/>	<hr/>
		336,743	346,289
Current Assets			
Debtors	11	4,892	14,940
Short term investments	9(b)	64,502	21,000
Cash in bank and in hand		6,696	4,506
		<hr/>	<hr/>
		76,090	40,446
Creditors: amounts falling due within one year	12	(14,195)	(13,215)
Net current assets		<hr/>	<hr/>
		61,895	27,231
Provision for liabilities and charges			
Early retirement provision	13	(1,315)	(582)
Net assets		<hr/>	<hr/>
		397,323	372,938
		<hr/>	<hr/>
Represented by:			
Capital Funds			
Permanent Endowments	15	9,399	10,767
Restricted Funds		327,434	317,181
Unrestricted Funds		41,705	24,468
		<hr/>	<hr/>
		378,538	352,416
Revenue Funds			
Restricted Funds	15	6,948	7,763
Unrestricted Funds		11,837	12,759
		<hr/>	<hr/>
		18,785	20,522
Total Funds		<hr/>	<hr/>
		397,323	372,938
		<hr/>	<hr/>

The notes on pages 37 to 51 form part of this account

Accounting Officer

Trustee

Trustee

Consolidated Cash Flow Statement

For the year ended 31 March 2003

	Notes	2003 £000s	2002 £000s <i>Restated</i>
Net cash inflow from operating activities	16(a)	16,513	13,492
Returns on investments and servicing of finance:			
Interest received		1,674	1,345
Dividends received		319	401
Net cash inflow from returns on investments and servicing of finance		1,993	1,746
Investing Activities:			
Capital expenditure and financial investments:			
Purchase of tangible assets		(12,193)	(22,306)
Purchase of fixed asset investments	9(a)	(4,881)	(6,449)
Receipts from sale of fixed asset investments	9(a)	7,674	5,414
Receipts from sale of tangible assets - Orsman Road		890	0
Receipts from sale of investment property - Study Centre		35,500	0
Net cash outflow from investing activities		26,990	(23,341)
		45,496	(8,103)
Management of liquid resources			
Net purchase of short term investments		(43,743)	9,250
Increase/(Decrease)in cash	16(c)	1,753	1,147

The figures for 2002 have been restated to show greater breakdown detail in respect of cash flows.

Notes to the Accounts

1. ACCOUNTING POLICIES

Accounting Conventions

- (a) The accounting format and policies are prescribed in the Accounts Direction issued by the Secretary of State for Culture, Media and Sport in accordance with the Museum's Financial Memorandum. A copy of the Direction is available from the Director of Finance at the British Museum.
- (b) The financial statements are prepared under the historical cost convention as modified by the revaluation of tangible fixed assets and the treatment of investments, which have been included at market value.

Without limiting the information given, the accounts meet the requirements of the Companies Act 1985, accounting standards issued or adopted by the Accounting Standards Board so far as those requirements are appropriate including the Statement of Recommended Practice (Revised 2000) *Accounting and Reporting by Charities* issued by the Accounting Standards Board.

Consolidated accounts include the Museum's operating statement, trust funds owned and administered by the Museum, the British Museum Development Trust which fundraises for the Museum, and its trading companies The British Museum Company Limited and The British Museum Great Court Limited. The form of control exercised by the British Museum over these entities is set out under Connected Entities in the Foreword to these Accounts.

(c) **Statement of Financial Activities (SOFA)**

- (i) This statement discloses the totality of the resources receivable by the Museum during the year and their disposition. Resources are allocated to particular funds according to their purpose and comprise both capital and revenue elements.
- General funds are available for use at the discretion of the Trustees in furtherance of the general objectives of the Museum.
- Designated funds comprise funds which have been set aside at the discretion of the Trustees for specific purposes. The purpose and use of the designated funds are set out in the notes to the financial statements.
- Restricted funds are funds subject to specific restriction imposed by sponsors and donors.
- Permanent endowment funds are funds which the donor has stated are to be held as capital.
- (ii) All incoming resources are accounted for on a receivable basis. Grant-in-aid is taken to the SOFA in the year in which it is received. Sponsorship receipts and donations are recognised as incoming resources when the conditions for their receipt have been, or will be, met.
- (iii) Resources expended are classified in the SOFA under the principal categories of charitable and other expenditure rather than under the type of expense.

Resources expended comprise direct expenditure including direct staff costs attributable to the activity. Where costs cannot be directly attributable, they have been allocated to activities on a basis consistent with use of the resources. Fundraising and publicity costs are those incurred in seeking voluntary and sponsored contributions for the Museum. Management and administration costs are those incurred in connection with the management of the Museum's assets, and compliance with constitutional and statutory requirements.

(d) **Income and Expenditure Account**

- (i) The Museum substantially achieves its objectives through current operations, the majority of which are revenue-generating. The Income and Expenditure Account measures current operating results.
- (ii) All income is accounted for on a receivable basis. Grant-in-aid is taken into account in the year in which it is received. Income in relation to sponsorship and restricted donations is accounted for in the year in which funded activities take place.
- (iii) Current expenditure is classified under the relevant headings as set out in (c)(iii) above.

(e) **Collection Purchases**

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

- (f) **Tangible Fixed Assets**
Tangible fixed assets, with the exception of assets in the course of construction which are carried at cost, are carried at valuation. Depreciation is provided on all tangible assets, other than freehold land, at rates calculated to write off the value of each asset evenly over their expected useful life, as follows:

Freehold buildings	20 to 112 years
Capital improvements to leasehold properties	life of lease
Permanent gallery exhibitions	25 years
Furniture, fittings and equipment	4 years (Museum, British Museum Development Trust)
Furniture, fittings and equipment	3 years (British Museum Company Ltd)

No residual value is assumed for any asset at the end of the period of depreciation.

It is the policy of the Trustees of the British Museum to plan the maintenance and refurbishment of the buildings on an even basis and at a level designed to maintain and preserve the buildings for the foreseeable future. The cost of such works is written off to the SOFA and the Income and Expenditure Account in the year incurred.

Freehold investment properties have been brought into the accounts at open market value and are not depreciated. This is in accordance with SSAP 19.

- (g) **Investments**
Investments are stated at market value as at 31 March 2003. Both recognised and unrecognised gains and losses on investments relating to revenue funds are reflected in both the Statements of Financial Activities and the Income and Expenditure Account whilst recognised and unrecognised gains and losses on investments relating to the permanent endowment funds are recognised in the Statement of Financial Activities only. (See note 5(d)).

- (h) **Stock**
Stock is stated at the lower of cost and net realisable value.

- (i) **Leases**
The British Museum has no finance leases. Costs relating to operating leases are charged in the Income and Expenditure Account and Statement of Financial Activities over the life of the lease.

- (j) **Foreign Currencies**
Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All exchange differences are taken to the Income and Expenditure Account and Statement of Financial Activities.

- (k) **Pensions**
Pension contributions of British Museum employees are paid to the Paymaster General at rates determined from time to time by the Government Actuary and advised by the Treasury.

The British Museum Company Limited has both defined benefit and defined contribution pension schemes

The British Museum has operated an Early Retirement Scheme which gives retirement benefits to certain qualifying employees. These benefits conform to the rules of the Civil Service Pension Scheme. The British Museum bears the costs of these benefits until normal retiring age of the employees retired under the Early Retirement Scheme.

- (l) **Notional Costs**
In accordance with Treasury instructions, the notional cost of capital is charged in the Statement of Financial Activities in arriving at a net incoming/(outgoing) resources figure. This is reversed so that no provision is included on the balance sheet.

- (m) **Donated Assets**
Assets in the form of objects for the collections have been donated to the Museum and are included in the balance sheet at valuation.

- (n) **Taxation**
The Museum is exempt from Income, Capital Gains and Corporation Tax as an Exempt Charity.

2(a). GRANT-IN-AID

£36,469,000 of Grant-in-aid has been received in the year from the Museum's funding department, the DCMS (2001-02 £35,969,000)

3. INVESTMENT INCOME AND RENT RECEIVABLE

	SOFA 2003 £000s	I & E 2003 £000s	SOFA 2002 £000s	I & E 2002 £000s
Interest Receivable	2,462	1,359	1,345	1,084
Dividends Receivable	305	159	401	401
	<u>2,767</u>	<u>1,518</u>	<u>1,746</u>	<u>1,485</u>
Rents Receivable	321	321	300	300
	<u>3,088</u>	<u>1,839</u>	<u>2,046</u>	<u>1,785</u>

4. NET INCOMING RESOURCES

is stated after charging	2003 £000s	2002 £000s
Auditors' remuneration: Audit fees	63	61
Auditors' remuneration: Other	3	5
Operating lease rentals: Hire of plant and machinery	18	37
Operating lease rentals: Land and buildings	894	794

5. TOTAL RESOURCES EXPENDED

(a) Statement of Financial Activities	Staff	Other	Depreciation £000s	Support	2003	2002
	Costs £000s	Costs £000s		Costs £000s	Total £000s	Total £000s
Care, research and conservation	15,239	6,807	4,269	482	26,797	27,509
Public access and education	10,063	2,776	3,813	430	17,082	18,962
Trading - Charitable Objectives	504	1,160	168	19	1,851	2,750
	<u>25,806</u>	<u>10,743</u>	<u>8,250</u>	<u>931</u>	<u>45,730</u>	<u>49,221</u>
Fundraising and publicity	414	338	9	0	761	708
Commercial Trading Operations	4,478	10,303	383	0	15,164	14,939
Investment Management Costs		20	0	0	20	17
Management/admin of the charity	220	122	36	4	382	362
	<u>30,918</u>	<u>21,526</u>	<u>8,678</u>	<u>935</u>	<u>62,057</u>	<u>65,247</u>

(b) Income and Expenditure Account	Direct	Support	2003	2002
	Costs £000s	Costs £000s	Total £000s	Total £000s
Care, research and conservation	26,315	482	26,797	27,509
Public access and education	16,652	430	17,082	18,962
Trading - Charitable Objectives	1,832	19	1,851	2,750
	<u>44,799</u>	<u>931</u>	<u>45,730</u>	<u>49,221</u>
Fundraising and publicity	761	0	761	708
Commercial Trading Activities	15,164	0	15,164	14,939
Investment Management Costs	20	0	20	17
Management/admin of the charity	378	4	382	362
Depreciation transferred to Capital Funds	0	0	(8,295)	(7,454)
	<u>61,122</u>	<u>935</u>	<u>53,762</u>	<u>57,793</u>

(c)	Reconciliation of Income and Expenditure Account and Statement of Financial Activities	2003	2002
		£000s	£000s
	Operating Surplus per Income and Expenditure Account	5,311	3,460
	Incoming Resources designated for Permanent Endowment Funds	700	0
	Incoming Resources designated for Capital Projects:		
	Unrestricted	655	493
	Restricted	7,369	22,353
	Resources Expended designated as Capital Projects:		
	Depreciation	(8,295)	(7,454)
	Net incoming Revenue (Expenditure)/Income designated as deferred income	(319)	792
	Net Incoming Resources per Statement of Financial Activities	<u>5,421</u>	<u>19,644</u>

The above statement identifies those elements of incoming and expended resources in the Statement of Financial Activities which respectively have been designated by Trustees to finance capital projects or represent actual capital expenditure. They have been excluded from the Consolidated Income and Expenditure Account.

The operating surplus in the Income and Expenditure Account therefore is adjusted by the net income assigned to capital projects in the Statement of Financial Activities of £110,000 (£16,184,000 in 2001-02).

(d)	Loss/ Gains on investment assets	SOFA	I & E	SOFA	I & E
		£000s	£000s	£000s	£000s
		2003	2003	2002	2002
	Realised (losses)/ gains on:				
	Fixed Asset Investments	(128)	(44)	185	33
	Unrealised losses on:				
	Fixed Asset Investments (note 9a)	(2,937)	(953)	(544)	(174)
		<u>(3,065)</u>	<u>(997)</u>	<u>(359)</u>	<u>(141)</u>

(e)	Staff Costs	2003	2002
		£000s	£000s
	Wages and salaries	25,821	26,116
	Social security costs	1,784	1,906
	Pension costs	3,313	3,403
		<u>30,918</u>	<u>31,425</u>

Agency staff costs are not included in the above

- (f) Museum Directors' remuneration:
Mr Neil MacGregor took up his appointment as Director and Accounting Officer of The British Museum on 1 August 2003 at a salary of £120,000 per annum. The trustees have approved that his retirement age can be deferred to age 65. He received remuneration of £94,800 including £14,800 of employer's pension contributions to the Principal Civil Service Pension Scheme. Mr Christopher Jones acted as Accounting Officer until 31 July 2003. As Accounting Officer he received remuneration of £60,260 including £24,378 of employer's pension contributions to the Principal Civil Service Pension Scheme (£41,034 including £23,284 of employers contributions to the Principal Civil Service Pension Scheme in 2001-02). The trustees agreed that Mr Jones could retire under the provisions of the Principal Civil Service Pension Scheme Approved Early Retirement scheme. The total cost of this to the Museum is £69,888. Mr Jones was paid £22,386 under this scheme during the year.

Senior Staff Remuneration

The following staff occupied the roles of senior managers within the Museum during the year as defined by HM Treasury.

	Age	Remuneration for year	Remuneration for year	Real pension increase in the year	Total accrued pension at 60 at 31 March 2003
	2003	2003	2002	2003	
		£000s	£000s		
Neil Macgregor, Director and Accounting Officer	56	80		£5-£7.5K	£50-£55K
Christopher Jones, Accounting Officer	58	36	18	£2.5-£5K	£35-£40K
Andrew Thatcher, Director of British Museum Co Ltd		91	72	N/A	N/A
Robert Anderson, Director			96		
Suzanna Taverne, Managing Director and Accounting Officer			75		

The Director of The British Museum Company Limited received pension contributions of £8,000 in the year. He is not a member of the of the PCSPS nor a final salary pension scheme.

(g) The average number of employees, analysed by function was:

	2003	2002
Care, research and conservation	536	536
Public access and education	440	488
Trading - Charitable Objectives	23	24
Fundraising and publicity	13	14
Commercial Trading Activities	126	129
Management and administration of the Museum	4	4
	<u>1,142</u>	<u>1,195</u>

(h) Trustees:

The Trustees neither received nor waived any emolument during the year (2002: £nil). All Trustees are entitled to be reimbursed for reasonable travel and subsistence expenses incurred in the performance of their duties. In 2003 these amounted to £8,334 (2002: £3,886). The Museum also made a contribution to Churchill College towards secretarial support for the Chairman of £15,677.

6. NOTIONAL COST OF CAPITAL

Notional cost of capital is calculated as 6% of the average capital employed by the Museum in the year. Following revised DCMS guidance in 2002-03, any assets funded by donations or the public lottery are excluded the charge.

7. TANGIBLE FIXED ASSETS

7(a) Consolidated Tangible Fixed Assets	Freehold Land and Buildings £000s	Assets in the course c'struction £000s	Investment Properties £000s	Leasehold Improvements £000s	Permanent Exhibitions £000s	The Collection £000s	Plant	Total £000s
							Equipment Fixtures Fittings £000s	
Cost or valuation								
As at 1 April 2002: Cost	0	3,275	0	0	0	17,847	0	21,122
Valuation	261,733	0	18,722	748	20,496	0	17,967	319,666
Additions during the year	0	9,480	0	0	0	2,238	475	12,193
Adjustment to original cost	(693)	0	0	0	0	0	0	(693)
Disposals during the year	(150)	0	(16,200)	0	0	0	(2,023)	(18,373)
Transfer	1,095	(6,161)	0	0	957	0	4,109	0
Fixed Asset Valuation Adjustment	9,222	0	82	9	378	0	268	9,959
	<u>271,207</u>	<u>6,594</u>	<u>2,604</u>	<u>757</u>	<u>21,831</u>	<u>20,085</u>	<u>20,796</u>	<u>343,874</u>
As at 31 March 2003: Cost	0	6,594	0	0	0	20,085	0	26,679
Valuation	271,207	0	2,604	757	21,831	0	20,796	317,195
	<u>271,207</u>	<u>6,594</u>	<u>2,604</u>	<u>757</u>	<u>21,831</u>	<u>20,085</u>	<u>20,796</u>	<u>343,874</u>
Depreciation:								
At 1 April 2002:	4,024	0	0	89	2,073	0	7,307	13,493
Provided during the year	1,849	0	0	45	1,263	0	5,521	8,678
Disposals during the year	(22)	0	0	0	0	0	(2,023)	(2,045)
At 31 March 2003:	<u>5,851</u>	<u>0</u>	<u>0</u>	<u>134</u>	<u>3,336</u>	<u>0</u>	<u>10,805</u>	<u>20,126</u>
Net Book Value:								
At 31 March 2003	<u>265,356</u>	<u>6,594</u>	<u>2,604</u>	<u>623</u>	<u>18,495</u>	<u>20,085</u>	<u>9,991</u>	<u>323,748</u>
At 31 March 2002	<u>257,709</u>	<u>3,275</u>	<u>18,722</u>	<u>659</u>	<u>18,423</u>	<u>17,847</u>	<u>10,660</u>	<u>327,295</u>
Net book value at 31 March 2003 represents fixed assets for:								
Directly charitable activities	264,200	6,565	2,593	0	18,415	20,085	7,789	319,647
Other activities	1,156	29	11	623	80	0	2,202	4,101
	<u>265,356</u>	<u>6,594</u>	<u>2,604</u>	<u>623</u>	<u>18,495</u>	<u>20,085</u>	<u>9,991</u>	<u>323,748</u>

(b) Museum Tangible Fixed Assets

	Freehold Land and Buildings £000s	Assets in the course c'struction £000s	Investment Properties £000s	Permanent Exhibitions £000s	The Collection £000s	Plant Equipment Fixtures Fittings £000s	Total £000s
Cost or valuation:							
At 1 April 2002:							
Cost	0	3,275	0	0	17,847	0	21,122
Valuation	261,733	0	18,722	20,496	0	15,248	316,199
Additions during the year	0	9,480	0	0	2,238	0	11,718
Adjustment to original cost	(693)	0	0	0	0	0	(693)
Disposals during the year	(150)	0	(16,200)	0	0	(1,649)	(17,999)
Transfers	1,095	(6,161)	0	957	0	4,109	0
Fixed Asset Valuation Adjustment	9,222	0	82	378	0	228	9,910
At 31 March 2003:	271,207	6,594	2,604	21,831	20,085	17,936	340,257
Cost	0	6,594	0	0	20,085	0	26,679
Valuation	271,207	0	2,604	21,831	0	17,936	313,578
	271,207	6,594	2,604	21,831	20,085	17,936	340,257
Depreciation:							
At 1 April 2002:	4,024	0	0	2,073	0	6,578	12,675
Provided during the year	1,849	0	0	1,263	0	5,183	8,295
Disposals during the year	(22)	0	0	0	0	(1,649)	(1,671)
At 31 March 2003:	5,851	0	0	3,336	0	10,112	19,299
Net Book Value:							
At 31 March 2003	265,356	6,594	2,604	18,495	20,085	7,824	320,958
At 31 March 2002	257,709	3,275	18,722	18,423	17,847	8,670	324,646
Net book value at 31 March 2003 represents fixed assets for:							
Directly charitable activities	264,200	6,565	2,593	18,415	20,085	7,789	319,649
Other activities	1,154	29	11	80	0	34	1,309
	265,354	6,594	2,604	18,495	20,085	7,823	320,958

The adjustment to original cost of £693,000 relates to the release of over estimated accruals made in prior years relating to the final projected cost of the Great Court project.

- (c) The historic cost of the land and buildings is not known; cumulative additions shown above represent purchases since 1 April 1999. The main Museum site at Great Russell Street was valued at 31 March 2001 on the basis of depreciated replacement cost for existing use. The other freehold buildings were valued at 31 March 1999 at total worth in existing use based on open market value. Investment properties were valued at open market value at the same date.

Valuations were carried out for accounting purposes at 31 March 2001 by Gerald Eve, Chartered Surveyors for the main Museum building at Great Russell Street and at 31 March 1999 by Kinney and Green, Chartered Surveyors for the other freehold land and buildings in accordance with the Guidance Notes issued by the Royal Institution of Chartered Surveyors.

Freehold Land and Buildings, Investment Properties, Leasehold Improvements, Permanent Exhibitions and Plant, Equipment Fixtures and Fittings have been adjusted by the application of relevant Office for National Statistics indices to current cost at 31 March 2003.

The valuation adjustment of £9,959,000 arises from the revaluation referred to above and the application of relevant indices to the carrying values at 31 March 2003. This has been treated in the Statement of Financial Activities as an exceptional item and has not been included in the Income and Expenditure Account as it has no impact on the operating costs of the Museum.

Blythe House is currently occupied by the British Museum, Science Museum and the Victoria and Albert Museum. The freehold title is held in the name of the Secretary of State for the Environment, although ministerial responsibility for all Museum estate issues has subsequently transferred to the Secretary of State for Culture, Media and Sport. Each Museum has been investigating the implications of FRS 5 Reporting the Substance of Transactions. This process of examining the benefits and obligations of ownership will not be completed until the end of March 2004 and will take into account any proposals from the DCMS Museums Storage Review.

8. ACTIVITIES IN FURTHERANCE OF THE CHARITY'S OBJECTIVES

Income arising includes restricted donations of £2,100,000, fees from loan exhibitions of £1,015,000 and admission fees to temporary exhibitions of £576,000.

9. INVESTMENTS

9(a) Fixed Asset Investments - Group and Museum

	2003	2002
	£000s	£000s
Market value at 1 April 2002	21,143	20,467
Less: disposals at cost (proceeds £7,674,000, loss £128,000)	(7,802)	(5,229)
Add: acquisitions at cost	4,881	6,449
Net loss on revaluation	(2,937)	(544)
Market value at 31 March 2003	<u>15,285</u>	<u>21,143</u>
Historical cost at 31 March 2003	15,707	18,638
Investment (losses)/gains at 31 March 2003	<u>(422)</u>	<u>2,505</u>
	<u>15,285</u>	<u>21,143</u>

Investments comprised the following:

Investment assets in the UK:

British Government Stocks	3,138	3,369
Listed Equities	5,146	6,357
Cash held as part of investment portfolio	3,459	6,656
Investment assets outside the UK:		
Listed Equities	<u>3,542</u>	<u>4,761</u>
	<u>15,285</u>	<u>21,143</u>

Investments are revalued at middle market value at the year end.

9(b) Current Asset Investments

	2003	2002
	Cost	Cost
	£000s	£000s
Short Term Current Deposits	<u>65,743</u>	<u>22,000</u>

10(a) SUBSIDIARIES

The Museum owns 100% of the issued share capital of The British Museum Company Limited and of The British Museum Great Court Limited. The Museum incorporates their results in the consolidated accounts.

10(b) RESULTS OF TRADING SUBSIDIARIES

	BM Co 2003 £000s	BMGC 2003 £000s	Total 2003 £000s	Total 2002 £000s
Turnover	10,736	5,691	16,427	16,280
Cost of sales	(4,906)	(4,544)	(9,450)	(9,644)
Gross profit	5,830	1,147	6,977	6,636
Selling and distribution costs	(2,935)	0	(2,935)	(2,810)
Administrative expenses	(2,677)	(237)	(2,914)	(2,633)
Other operating income	162	0	162	25
Operating profit	380	910	1,290	1,218
Interest receivable	39	41	80	48
Fixed Asset Valuation Adjustment	49	0	49	(85)
Contribution to the Trustees of the British Museum	(378)	(951)	(1,329)	(1,180)
Surplus/(deficit) retained in the Company	90	0	90	1

The operating profit of The British Museum Company Limited is stated after charging staff costs of £3,017,000 (£3,094,000 in 2001-02) and depreciation of tangible fixed assets of £383,000 (£308,000 in 2001-02) and has been adjusted for consolidation purposes to include fixed assets at modified historical cost thus increasing the surplus for the year by £43,000 net of the additional depreciation charge of £6,000 (2002, £8,000). The two subsidiaries have made Gift Aid contributions to the British Museum in the year of £1,375,000 (2002, £1,180,000)

10(c) Amounts as shown in the SOFA and Income and Expenditure account are as follows:

	2003 Turnover £000s	2003 Costs £000s	2002 Turnover £000s	2002 Costs £000s
From The British Museum Company Limited	10,736	10,518	11,269	11,264
Other Operating Income	162			
From The British Museum Great Court Limited	5,691	4,781	5,011	4,150
less transactions with the British Museum	(741)	(135)	(716)	(475)
	15,848	15,164	15,564	14,939

Net assets at 31 March 2002 comprise:

	BM Co 2003 £000s	BMGC 2003 £000s	Total 2003 £000s	Total 2002 £000s
Tangible fixed assets	2,764	0	2,764	2,649
Current assets	4,166	2,023	6,189	6,729
Creditors due within one year	(1,792)	(1,532)	(3,324)	(3,813)
Net assets	5,138	491	5,629	5,565

The British Museum Company Limited has capital consisting of 750,000 £1 shares all of which have been issued at par. The British Museum Company Limited owns the whole of the issued share capital of £100 of British Museum Ventures Limited, which is incorporated in England. The British Museum Great Court Limited has an authorised share capital of 10 million ordinary shares of £1 each, 500,000 of which have been issued at par.

11. DEBTORS

	Group		Museum	
	2003 £000s	2002 £000s	2003 £000s	2002 £000s
Trade debtors	791	1,609	119	764
Other debtors	1,124	6,352	1,065	6,088
Prepayments and accrued income	2,599	5,733	2,142	5,588
Amount due from subsidiaries	0	0	1,566	2,500
	4,514	13,694	4,892	14,940

12. CREDITORS

	Group		Museum	
	2003 £000s	2002 £000s	2003 £000s	2002 £000s
Amounts falling due within one year:				
Trade creditors	2221	2,022	1575	1,644
Other creditors	708	5,310	594	4,479
Early Retirement Provision	6,170	475	6,170	475
Accruals	6740	6,609	5840	6,576
Amount due to subsidiaries			16	41
	<u>15,839</u>	<u>14,416</u>	<u>14,195</u>	<u>13,215</u>

13. PROVISIONS AND CHARGES

Early retirement commitments at 31 March 2003 are as follows:

	2003 £000s	2002 £000s
Pension provision brought forward	1,057	1,370
Provision made in year	7,182	0
Payments in year	<u>(754)</u>	<u>(313)</u>
	7,485	1,057
Less current portion - included in creditors amounts falling due within one year	<u>(6,170)</u>	<u>(475)</u>
	<u>1,315</u>	<u>582</u>

14. FINANCIAL COMMITMENTS

At 31 March 2003 the British Museum had annual commitments under operating leases as follows:

	Land and Buildings		Plant and Machinery	
	2003 £000s	2002 £000s	2003 £000s	2002 £000s
Leases which expire: within one year	500	0		11
in the second to fifth year	67	567	25	15
over five years	221	221	0	0
	<u>788</u>	<u>788</u>	<u>25</u>	<u>26</u>

15. STATEMENT OF FUNDS

	At 1 April 2002 £000s	Income £000s	Expenditure £000s	Revaluation/ Investment gains/losses £000s	Movement during year £000s	Transfers between funds £000s	At 31 March 2003 £000s
Funds							
Capital Funds							
<i>Permanent Endowment Funds</i>	10,767	700	0	(2,068)	(1,368)	0	9,399
<i>Restricted Capital Funds</i>							
Collection Purchase Fund	834	1,624	0	0	1,624	(1,973)	485
Collection Fund	17,847	0	0	0	0	2,238	20,085
Building Revaluation Fund	173,401	0	0	0	0	(173,401)	0
Fixed Asset Revaluation Fund	0	0	0	9,828	9,828	159,767	169,595
Estates Proceeds	9,423	838	0	0	838	(4,209)	6,052
Construction Projects Fund	2,793	4,907	0	0	4,907	(5,157)	2,543
Fixed Asset Fund	112,883	0	8,295	0	(8,295)	24,086	128,674
	317,181	7,369	8,295	9,828	8,902	1,351	327,434
<i>Unrestricted Capital Funds</i>							
Collection Purchase Fund	0	155	0	0	155	(155)	0
Building Revaluation Fund	5,216	0	0	0	0	(5,216)	0
Investment Estate Revaluation Fund	0	0	0	82	82	2,522	2,604
Study Centre proceeds	0	0	0	0	0	35,164	35,164
Fire Safety Security Fund	2,623	0	0	0	0	0	2,623
Gallery Refurbishment Reserve	829	0	0	0	0	(15)	814
Maintenance Reserve	500	0	0	0	0	0	500
Fixed Asset Fund	15,300	500	0	0	500	(15,800)	0
	24,468	655	0	82	737	16,500	41,705
Total Museum Capital Funds	352,416	8,724	8,295	7,842	8,271	17,851	378,538
British Museum Co Ltd Fixed Assets	2,649	0	0	49	49	92	2,790
Total Consolidated Capital Funds	355,065	8,724	8,295	7,891	8,320	17,943	381,328
Revenue Funds							
<i>Restricted Revenue Funds</i>							
Restricted Income Trust Funds	2,448	0	62	(499)	(561)	(11)	1,876
Deferred Income Fund	5,315	2,082	2,389	0	(307)	64	5,072
	7,763	2,082	2,451	(499)	(868)	53	6,948
<i>Unrestricted Revenue Funds</i>							
Unrestricted Trust Funds	4,407	392	402	(498)	(508)	815	4,714
Oriental Research Fund	91	3	15	0	(12)	0	79
Reorganisation Reserve	6,121	0	0	0	0	(6,121)	0
General Funds	2,140	41,814	44,024	19,712	17,502	(12,598)	7,044
	12,759	42,209	44,441	19,214	16,982	(17,904)	11,837
Total Museum Revenue Funds	20,522	44,291	46,892	18,715	16,114	(17,851)	18,785
Consolidation Adjustments							
Unrestricted Funds	0	(2,206)	(2,206)	0	0	0	0
British Museum Co Ltd	2,424	10,937	10,896	0	41	(92)	2,373
The British Museum Great Court Ltd	(8)	5,732	5,733	0	(1)	0	(9)
Total Consolidated Revenue Funds	22,938	58,754	61,315	18,715	16,154	(17,943)	21,149
Total Funds	378,003	67,478	69,610	26,606	24,474	0	402,477

The DCMS and HM Treasury have agreed that over a three year period the Museum can fund designated capital expenditure from the proceeds of the sale of the investment estate. £4.2m has been transferred in 2002-03 (£4.6m, 2001-02) from the estates proceeds fund to the unrestricted fixed asset fund.

The Museum has rationalised the presentation of those reserves which represent tangible fixed assets. The investment estate is shown as an unrestricted fund. Those fixed assets which are part of the operational infrastructure of the Museum have been classified as restricted funds as they are either inalienable or their disposal would have a serious impact on the continuing operations of the Museum. Thus the restricted and unrestricted fixed asset funds have been consolidated into a single restricted fund. The restricted and unrestricted building revaluation funds have similarly been consolidated into a single restricted revaluation fund except for the valuation of the investment estate.

Analysis of group net assets between funds

	Permanent Endowments £000s	Unrestricted Funds £000s	Restricted Funds £000s	Total 2003 £000s
Fund balances at 31 March 2003 are represented by:				
Tangible Fixed Assets		5,394	318,354	323,748
Fixed Asset Investments	7,943	5,266	2,076	15,285
Current Assets	1,465	64,970	14,163	80,598
Current Liabilities	(9)	(15,619)	(211)	(15,839)
Early retirement provision		(1,315)		(1,315)
Total Net Assets	9,399	58,696	334,382	402,477
Unrealised losses included above				
On investments	(1,720)	(462)	(755)	(2,937)
Total unrealised losses at 31 March 2003	(1,720)	(462)	(755)	(2,937)

The Trustees consider that sufficient resources are held in an appropriate form to enable each fund to be applied in accordance with any restriction imposed.

Capital: Permanent Endowment Funds

These consist of funds for which only the income can be used. The major part consists of the Brooke-Sewell Permanent Fund. This was established by Mr Percy Thomas Brooke-Sewell with a series of benefactions made during his lifetime specifically for the purchase of Oriental antiquities and works of art.

A donation of £700,000 was received within the year to fund the appointment of a curator for the Kings Library Gallery

Capital Funds: Restricted

These consist of a number of funds for major Museum gallery development.

Capital Funds: Unrestricted

These consist of funds designated by the Trustees for various purposes and include:

Fire Safety and Security

Monies designated for use in carrying out necessary works to ensure that the Museum complies with the statutory requirements needed to make the Museum a safe and secure environment for public and staff, and to renew the electrical infrastructure.

Restricted Trust Funds

These consist of a number of funds where the donor has specified the use to which they may be put. The major funds are as follows:

Ready Bequest

A bequest from Miss M Ready to be used for the purchase of Greek and Roman antiquities.

Sharpe Bequest

A bequest from Dr D Sharpe to be used for the purchase of books concerned with Ancient Greece or Rome.

Brooke-Sewell Bequest

A bequest from Mr P Brooke-Sewell to be used for the purchase of Oriental and Japanese antiquities.

Unrestricted Trust Funds

Shaw Fund

The Charity Commission has agreed that this fund should be shared equally with the British Library further to an agreement dated 30th November 1999. A payment of £3,000,000 was made to The British Library in the year with a balance, based on stock market valuations, outstanding at the year end of £829,000.

Revenue: Designated Funds

Oriental Research Fund

A fund established mainly for travel to China in connection with research and fieldwork and for the funding of Chinese academics and students whilst working or studying at the British Museum.

16. CASH FLOW INFORMATION

(a) Reconciliation of net incoming resources to net cash inflow from operating activities.

	2003	2002
	£000s	£000s
		<i>Restated</i>
Net incoming resources before revaluations	5,421	19,644
Exceptional item Early Retirement Provision	(7,182)	0
Exceptional item: Split of Shaw Fund	(371)	(3,458)
Investment Income	(1,993)	(1,746)
Depreciation	8,678	7,762
Decrease/(Increase) in stocks	281	677
Decrease/(increase) in non-interest/dividend debtors	9,982	(5,592)
(Decrease)/Increase in Shaw Fund Creditors	(3,000)	3,458
Increase/(Decrease) in early retirement creditors	5,695	(142)
(Decrease) in other creditors	(1,731)	(6,940)
Increase/(Decrease) in provisions	733	(171)
Net cash inflow from operating activities	<u>16,513</u>	<u>13,492</u>

(b) Reconciliation of net cash flow to movement in net funds

Increase/(Decrease) in cash in the period	1,753	1,147
Cash flow from decrease in liquid resources	43,743	(9,250)
Movement in net funds in the period	<u>45,496</u>	<u>(8,103)</u>
Net funds at 1 April	28,358	36,461
Net funds at 31 March	<u>73,854</u>	<u>28,358</u>

(c) Analysis of net funds

	2003	Cash Flow	2002
	£000s	£000s	£000s
Liquid Resources:			
Short Term Deposits	65,743	43,743	22,000
Cash:			
Cash at bank and in hand	8,111	1,753	6,358
	<u>73,854</u>	<u>45,496</u>	<u>28,358</u>

The figures for 2002 have been restated to show greater breakdown detail in respect of cash flows.

17. RELATED PARTY TRANSACTIONS

The British Museum is a Non-Departmental Public Body whose parent body is the Department for Culture, Media and Sport. During the year, the British Museum had a number of transactions in the normal course of business and at full arms length with the Department and certain of its subsidiary bodies.

Sir John Boyd is a trustee of the great Britain Sasakawa Foundation who made a donation towards the costs of the Kazari exhibition.

Lord Browne is the Chief Executive of BP plc which is a corporate partner of the Museum. During the year the company made a donation to the Museum. He is also a director of Goldman Sachs Group which is a corporate partner.

Sir Michael Hopkins is also the Architect to the Royal Academy. The British Museum has entered into a lease to rent the Museum of Mankind from The Royal Academy.

Mr Christopher McCall's wife was appointed as a part time curator for 13 months with responsibility for the Agatha Christie exhibition. During the year she received remuneration of £171.

Mr Tom Phillips has painted a portrait of the retiring Director, at a cost to the Museum of £25,000. He is a member of the Management committee of The Royal Academy from whom the British Museum leases the Museum of Mankind.

Lord Powell of Bayswater is a trustee of the Karim Rida Said Foundation which sponsors an Arab world post.

Dr Anna Ritchie is a member of the Heritage Lottery Fund Expert Panel on Historic Buildings and Land. The Heritage Lottery has made grants during the year to the Great Court Project and to purchase the Milton Keynes Hoard

Professor Jean Thomas is a governor of the Wellcome Trust which is sponsoring the Wellcome Gallery.

Lady Dalkeith's husband, the Earl of Dalkeith, is a trustee of the Heritage Lottery Fund, which gave grants to the Museum in the year.

The British Museum has loaned items from the collections to the following organisations during 2002-03 which have the Department for Culture, Media and Sport or other Government Departments as a parent organisation:

National Museum of Science and Industry
National Gallery, London
British Library, London

Natural History Museum, London
National Portrait Gallery, London
Historic Royal Palaces

National Gallery of Scotland
National Museums on Merseyside

Tate Gallery, London
National Museums of Wales

The British Museum has borrowed items from the collections of the following organisations during 2002-03 which have the Department for Culture, Media and Sport as the sponsoring department:

National Museums of Scotland

National Museums on Merseyside

During the year none of the Trustees, members of key management staff or other related parties has undertaken any material transaction with the Museum, except as described above.

18. CAPITAL COMMITMENTS

At the balance sheet date, outstanding capital commitments approved amounted to some £7,916,000 of which £3,036,000 was contracted for.

19. PENSIONS

Present and past employees of the British Museum are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is non-contributory and unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. The British Museum, and other bodies covered by the PCSPS, meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

From 1 October 2002, staff who are members of the scheme can be in one of three statutory based "final salary" schemes, namely, classic, premium, and classic plus. New entrants after 1 October 2002 may choose between membership of the premium scheme or can join a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account). The differences between the schemes can be found on the WWW.CIVILSERVICE-PENSIONS.GOV.UK website

For 2002-03, contributions of £3,026,699 (£2,646,317 for 2001-02) were paid to the Paymaster General (Civil Superannuation Vote) at rates determined from time to time by the Government Actuary and advised by the Treasury.

For 2002-03 these rates were as follows: for salaries £16,500 and under, 12%, for salaries between £16,501 and £34,000, 13.5%, for salaries between £34,001 to £59,000, 16.5%, for salaries over £59,001, 18.5%.

The British Museum Company Limited operates a defined contribution scheme for the benefit of employees who commenced their employment after 1 January 2000. The assets of the scheme are self administered in funds independent from those of the company. The company operates a defined benefit scheme for its employees, who commenced their employment prior to 1 January 2000, The British Museum Company Limited Retirement Benefits Plan'. The assets of the scheme are held separately from those of the Company and are managed by Trustees appointed by the directors of the company.

The most recent full actuarial review of the scheme was at 1 May 2001 and was signed off by the actuary on 28 March 2002.

Pension costs are assessed in accordance with the advice of a qualified actuary using the attained age method. The assumptions, which have the most significant effect on the results of the valuation, are that, over the long term, investment returns would be at the rate of 8.5% per annum and that this would exceed the rate of salary growth by 2.5%

The market value of the scheme assets as at 1 May 2001 was £3,304,400. The actuarial value of those assets was sufficient to cover 89.2% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Current and future contributions reflect the deficiency.

With effect from 1 May 2002, a schedule of contributions was put into place to fund the scheme's defined benefits at the rate of 28% per annum of pensionable salary for scheme members. For employees joining the scheme before 1 November 1993, the scheme is non contributory. Employees joining the scheme with effect from 1 November 1993 pay 5% of pensionable salary towards the total. The cost of insuring the death in service benefits is payable in addition to these amounts.

The total employers pension contributions for entities adhering to the scheme was £246,000.

SSAP 24 and Financial Reporting Standard No 17 (FRS 17)

The financial statements have, as last year, been prepared in accordance with SSAP 24. However, following the introduction of FRS 17 this note now also includes the additional disclosures required in respect of defined benefit schemes under the transitional arrangements established by FRS 17.

Whereas the asset valuation under SSAP 24 is at actuarial values based upon estimated future returns, the FRS 17 asset values reflect market values at the balance sheet date. In valuing liabilities, SSAP 24 discounts the estimated liabilities to present values using a long-term actuarial estimate of scheme investment returns, whereas FRS 17 uses the yield on AA rated corporate bonds. FRS 17

The qualified actuary, independent of any participating employers, has adjusted the data used in the actuarial valuation above for the 2001 valuation, for the purposes of calculating the FRS No 17 disclosures for the year ended 31 March 2003. The major assumptions used by the actuary for the 31 March 2003 FRS valuation were as follows:

	% per annum
Rate of increase in salaries*	2.0%
Rate of increase in inflation*	2.0%
Rate of increase of Guaranteed Minimum Pensions (GMP) earned before 6 April 1988	N/A
Rate of increase of Guaranteed Minimum Pensions (GMP) earned after 6 April 1988	5.0%
Rate of increase of pensions in excess of GMP earned before 30 April 1991	3.0%
Rate of increase of pensions in excess of GMP earned after 30 April 1991 but before 1 January 2002	5.0%
Rate of increase of pensions in excess of GMP earned after 1 January 2002	1.8%
Rate of revaluation of GMPs	Fixed Rate
Rate of revaluation of deferred pensions in excess of GMP	5.0%
Discount Rate	5.9%
* chosen by employer	

The estimated value of the assets backing the scheme's defined benefit liabilities invested through the policy with Friends Provident were:

	31 March 2003 £000s
Face value	2,950
The estimated value of the scheme's defined benefit liabilities for the purposes of FRS 17	4,960
The estimated deficiency of the scheme's defined benefit assets against liabilities for the purposes of FRS 17: Face Value	2,010

20. CONTINGENT LIABILITIES

The Museum has received a claim for £1.6 million in respect of a terminated PFI project relating to the Study Centre. The trustees will vigorously contest the claim.

21. FINANCIAL INSTRUMENTS

FRS 13 Derivatives and other financial instruments, requires disclosure of the role which financial instruments have had during the period, in creating or changing the risks that the Museum faces in undertaking its role.

Liquidity Risks

In 2002-03 £36,469,000 of the British Museum's income derived from Grant in Aid provided by the Department for Culture, Media and Sport. £38,829,000 of income derived from returns on its investments of which £36,390,000 relates to a one off sale of property. £15,848,000 of income came from the Museum's commercial trading activities and £1,637,000 from donations and legacies.

At the Balance Sheet date the Museum had net assets of £402 million. Although the Balance Sheet shows that the Museum holds significant reserves, it should be noted that many of these Funds have restrictions on how the money can be applied.

The Museum holds unrestricted revenue reserves of £14 million at the year end, and the Trustees believe that the Museum has sufficient unrestricted revenue reserves and budgeted income over the next year not to be exposed to significant liquidity risks.

Interest Rate Risks

The Museum's financial assets are made up of cash and investments. Cash is held in a variety of bank accounts, some of which carry nil rates of interest, some of which carry floating rates of interest and some which carry fixed rates of interest. Returns on investments, such as capital growth, dividends and interest are subject to prevailing stock market conditions and the Museum employs professional fund managers to manage its investments as best it can in light of prevailing market conditions.

Sterling Assets	Floating rate Financial Assets-Cash and Deposits £000s	Fixed rate Financial Assets-Cash and Deposits £000s	Non interest bearing Financial Assets-Cash and Deposits £000s	Investments- Stocks and Equities £000s	Total £000s
As at 31.03.03	6,267	71,046	3,542	8,284	89,139
As at 31.03.02	11,446	22,500	5,829	9,726	49,501

The Museum has no financial liabilities such as bank loans

The Trustees believe that the Museum is not exposed to significant interest rate risks.

Foreign Currency Risk

Although the Museum has dealings in foreign currency, the Trustees believe that the Museum is not exposed to any material foreign exchange risks.