

THE BRITISH MUSEUM

REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2004

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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 2004. Pages 19 to 36 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.

2 Overview of financial performance 2003/04

Results

The Museum achieved an operating surplus of £1,729,000 on its consolidated income and expenditure account, after deducting £3,786,000 from income to fund capital expenditure. Taking one year with another, the Museum expects to need to spend between about £5m to £6m per annum on capital expenditure to replace or extend the life of its assets, implying that in 2003/04 the Museum was well on target for achieving break even in 2004/05.

This recovery of the Museum's financial position has been achieved by the last two years' actions to reduce the Museum's cost base by £6.5 million. By April 2004 this task was substantially complete and the 2004/05 budget is balanced. The actions in 2003/04 involved:

- transferring Ethnographic textiles from Burlington Gardens and other textiles to purpose built storage at Blythe House
- cessation of our lease on the Museum of Mankind building in Burlington and re-accommodation of Ethnography staff in the newly refurbished East Residence and the Anthropological Library in the former State Papers Room
- completion of the operational changes necessitated by merging departments to create the departments of Prehistory & Europe and Asia
- renegotiation of security shift patterns and staffing arrangements
- administrative cost savings across the board
- appointment of new senior managers to lead operations, communications, marketing, human resources, education & information, security and facilities management and further restructuring in many of these departments
- closure of the BMCo premises at 22 Russell Street and of the Traveller programme

The Museum also celebrated its 250th anniversary and successfully completed two major projects with the opening of the Wellcome Gallery and the King's Library.

Reserves

Although the Museum's total reserves at 31 March 2004 are shown as £470.1 million on its balance sheet, £392.8m of this is tied up in operational capital: buildings, galleries, plant, fixtures and fittings and £10.8m in permanent endowment funds. Neither could be used for any other purpose. A further £6.4m is represented by restricted Trust Funds or deferred income funds which may be used only for the specific purposes set by donors.

This leaves £60.1m in unrestricted reserves, available to support the general charitable purposes of the Museum:

	31 March 2004	31 March 2003
	£m	£m
Unrestricted revenue reserves	16.7	14.2
Unrestricted capital reserves	<u>44.0</u>	<u>44.5</u>
Total unrestricted reserves	60.1	58.7

While the deficit was being addressed, the Trustees instructed that unrestricted revenue reserves should not be permitted to fall below £2m. This has been managed with some headroom and now the actions are complete, the Trustees have determined that in future unrestricted revenue reserves should be maintained at not less than £5m and unrestricted capital reserves at not less than £10m. The Museum's unrestricted reserves over and above the minimum levels set by the Trustees will be needed to finance or underwrite future development of the Museum and the Trustees have further agreed that £5m may be drawn down from reserves over the next two years to facilitate progress on a number of major projects.

Investments

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 Trust Funds' investments showed gains of 12.3% due to the recovery in equity prices, while generating a net yield of 3.3%. The gain did not make up in full for the investment losses experienced over the prior two years. The Trust Funds were reinvested in common investment funds in January 2004 with the aim of improving returns and simplifying management and monitoring.

5 Performance Targets

The Three Year Funding Agreement between the Museum and the Department of Culture, Media and Sport establishes six core targets for the Museum. These targets for 2003/04 and the actual performance achieved against each of them and other performance measures used by the Museum are set out below. The targets agreed with DCMS are indicated with an asterisk below:

Performance Indicator	2000-01 Actual	2001-02 Actual	2002-03 Actual	2003-04 Target	2003-04 Actual
Museum in London					
no. of visitors:	4,589,000	4,813,000	4,623,500	*4,400,00	4,622,169
% of repeat visitors:	43%	43%	40%	n/a	37%
% of Greater London visitors:	n/a	20%	22%	n/a	21%
no. of children in educational programmes:	n/a	142,000	165,900	*145,000	193,510
% of ethnic minority visitors	7.0%	6.5%	6.8%	n/a	7.2%
no. of child visitors:	900,000	951,000	858,000	*900,000	902,353
no of C2DE socio-economic visitors	590,000	555,000	580,000	*580,000	527,000
% of over 60's visitors:	14%	11%	11%	n/a	14%
no. of major gallery & exhibition sponsorships:	4	4	4	4	6
special exhibition visitors:	197,157	324,000	159,591	170,000	36,097
membership numbers:	13,600	14,364	15,234	14,000	15,974
Museum in Britain					
outreach learners:	2,700,000	3,234,000	4,713,000	3,500,000	5,468,492
no. of British loan venues:	83	86	95	*75	94
off-site visitors UK:	75,580	121,000	130,768	130,000	84,100
no. of Treasure Act cases processed:	349	397	422	350	530
Museum in the World					
no. of international visitors to the Museum:	2,800,000	2,647,000	2,404,220	2,530,000	2,495,971
no. of foreign loan venues:	88	89	114	60	117
no. of visitors to international exhibitions:	748,000	563,000	611,104	500,000	1,289,000
no. of web site visits:	3,900,000	4,491,000	6,850,818	*5,500,000	7,751,329
Capacity					
% of collection stored at correct environmental conditions:	70%	71%	71%	70%	66%
% of collection documented to stated					

international electronic standards:	28%	31%	31%	29%	33.2%
% of display collection internet-accessible:	7%	8%	9.7%	8%	10.3%
% time open (museum):	69%	69%	69%	69%	69%
% of visitors very satisfied:	71%	75%	72%	71%	79%
no. of diplomatic/ministerial visits to the Museum:	34	50	48	45	49
growth in income per visitor:	13%	36%	-3%	0%	-2%
G-I-A per visitor (actual and virtual):	£3.76	£3.60	£2.99	£3.41	£2.72
average days lost sick per employee:	9	8.8	8.1	8	7.2

The total number of visitors to the Museum held up well in the face of a reduction in tourists due to SARS and the invasion of Iraq. It is encouraging that the proportion of visitors describing themselves as very satisfied rose significantly during the year. Within the total number of visitors the proportion of children has increased with more children than ever participating in the Museum's successful educational programmes. Market surveys also indicate increasing numbers of children coming in family and other groups.

The measure of special exhibition visitors is based on paid admissions only. London 1753 and Art and Memory were two exhibitions for which charges had been planned but which were made free entry as a gesture towards the Museum's 250th anniversary. Nearly 400,000 visitors are estimated to have come and seen them.

The Museum's statutory role in the operation of the Treasure Act continues to grow as a significant activity in its own right. In 2003/04 curators processed 26% more finds than in 2002/03.

The Museum provides considerable resources away from its Bloomsbury base, including international touring exhibitions, outreach activities in schools, web resources, and loans to other museums and galleries. Two larger touring exhibitions: 250 years of the British Museum, staged in Japan and Eternal Egypt, staged in America drew in more than a million visitors between them, contributing to a very significant increase in the number of visitors logged by foreign exhibition venues. The Queen of the Night has drawn in large numbers of visitors from diverse audiences when it toured across the UK. Over 5 million people have visited the educationally rich Ancient Civilisation websites or enjoyed activities in schools and over 200 loans involving over 3,500 objects were made to other organisations.

The consolidation of storage space within the Museum, particularly due to the move of Ethnography out of Burlington Gardens, led to some collections being temporarily stored in more crowded or otherwise less than ideal circumstances towards the end of the year. This is reflected in a disappointing reduction in the indicator of storage quality. Work is in progress to improve the housekeeping in some stores and to co-locating the storage of some environmentally sensitive materials such as iron. Longer term storage plans are being developed within the remit of overall space planning.

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 partly reflects a decrease in the average donations received from visitors, which is thought to be linked to an increased expectation of subsidised free entry now that other museums and galleries have dropped entrance charges.

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

6 Report of the Audit Committee

The task of the Audit Committee is:

- to monitor on behalf of the Board that:
 - 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
 - major risks to the strategy are identified and are being managed
 - 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 met four times, covering a range of topics including the following:

- security of the collection
- the potential for financial prejudice posed by the introduction of resource budgeting and capital charging
- the Museum's risk register and testing of assurance arrangements with managers
- improving the transparency of the Museum's annual published accounts
- management of the Museum's Trust Funds
- recovery of past VAT expenditure
- endorsement of draft Trustees' policies
- resourcing of the Museum's internal audit function
- the Museum's response to the recommendations of the Gershon Efficiency review.

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. It has chosen to expand the normal Statement of Financial Activity and distinguish revenue from capital funds, in order to provide a clear expression of its accountability as an organisation providing services to the public. An Income and Expenditure Statement is also provided to remove further anomalies created by timing differences between related income and expenditure.

Results for the Year

The consolidated income and expenditure account reports an operating surplus of £1,729,000 before investment gains of £690,000 and an actuarial gain of £470,000 on a defined benefit pension scheme. This is stated after deducting £3,786,000 of income to fund capital expenditure. A further £19,967,000 capital expenditure has been funded by donors or from reserves. The rationalisation achieved in the past two years has been delivered within the £7,182,000 provision charged in last year's accounts.

The Trustees have in previous years emphasised their reliance on the Income and Expenditure account for clarity of year on year financial performance in matching income and expenditure. The presentation of the Statement of Financial Activity normally combines revenue and capital to focus on distinguishing restricted from unrestricted funds and has been of limited practical value. The extended SOFA included in these accounts displays revenue and capital funds separately to offer greater clarity within the one statement. Specifically it enables the movement on the revenue funds to be considered separately and bridges much of the conceptual gap between the traditional SOFA and the I&E account.

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 year ending 31 March 2005. It is the budgetary policy of the Board to maintain adequate reserves and 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.

Having taken action to address deficits that were arising on the Museum's budget, while sustaining adequate unrestricted reserves cover throughout this action, the Trustees are confident they can once again ensure forward 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 British Museum

The British Museum was founded by Act of Parliament in 1753 to care for the collection of Sir Hans Sloane and is now governed in accordance with the British Museum Act 1963. The 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. It is one of the most popular museums in the world, receiving 4.6 million visitors in 2003/04. It holds for the nation a collection of antiquities, prints and drawings, ethnography, and coins and medals that is amongst the finest in the world. The collection derives from all continents and over 10,000 years of human history. Responsibilities and activities flow from the custodianship both of the collection and of the building in which they are housed. The collection is 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. It is 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 collection available for research and discussion. It aims to fulfil its functions efficiently, effectively, economically and in a friendly and accessible manner.

Departments

The Museum comprises a directorate and 19 other departments split between collection and resources. The collections departments are: Ancient Egypt & Sudan; Ancient Near East; Asia; Coins & Medals; Conservation, Documentation & Science; Ethnography; Greek & Roman Antiquities; Information & Education; Prehistory & Europe; Presentation; Prints & Drawings. The resources departments are: Buildings & Estates; Communications; Development Office; Finance; Human Resources; Information Services; Marketing; Operations.

Housing the Collection

Custodianship of the Museum's collection and main building is vested in the Trustees. The Museum's main site is at Bloomsbury where all its departments are now based. Two buildings in Hoxton provide additional workshops and storage. 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.

Finance and Support for the Museum - Connected Entities

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 a range of commercial and fund-raising activities, sponsorship and activities for which a charge is made. 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.

The British Museum Company Ltd, a limited company wholly owned by the Trustees, is an exempt charity that 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. It is separately administered and three Trustees of the Museum and the Museum's Director and Deputy Director (Resources) are directors of the company. The company made an operating profit of £543,000 in 2003/04 (£380,000 in 2002/03) and made a Gift Aid donation of £668,000 to the Museum.

The British Museum Great Court Ltd is a limited company wholly owned by the Trustees, acts as the Museum's trading arm within the Museum estate for catering and income generating activities other than retailing. Its Directors are senior employees of the Museum. During the year the company made an operating profit of £847,000 (£910,000 in 2002/03) and made a Gift Aid donation of £910,000 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 three Trustees of the Museum are on its Board of Trustees. During the year, BMDT raised £4,681,000 for the Museum (£5,246,000 in 2002/03) and the Museum made a grant to the Trust of £699,000 (£726,000 in 2002/03) to cover running costs. A list of the BMDT Trustees can be found in *Appendix 1*.

The work of the Museum is supported by three 'friends' associations. British Museum Friends is a registered charitable trust that furthers collecting, public services and conservation, co-ordinates the Museum's volunteers and services the needs of the Friends. 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 £654,000 to the Museum (£267,000 in 2002/03).

The American Friends of the British Museum (AFBM) is committed to supporting the Museum's development by raising funds for the Museum in the United States. It is administered 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 £333,000 to the Museum (£359,000 in 2002/03).

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 curatorial 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).

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 meets quarterly to lead and control the Museum and is aided in this respect by three subcommittees of the Board: the Standing Committee, the Audit Committee and the Nominations and Governance Committee. 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 Governance Manager 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 is the nominated Accounting Officer for the Museum. 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.

Trustees and Senior Staff Transactions 2003/04

None of the Trustees, members of key management, staff or persons connected with them has undertaken any material transactions with the Museum in 2003/04. The Museum contributed £11,024 to Churchill College Cambridge towards secretarial support for the Chairman. The full register of interests of the Trustees is held at the Museum, where it may be seen by application to the Governance Manager.

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. Regular communications with staff are effected by a number of means:

- 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
- minutes of Management Board and Management Group meetings and a summary form of the Museum Plan are placed on the Museum intranet
- the Directorate holds informal weekly meetings open to all staff, with presentations and open discussion of topical issues
- the Museum Plan is made available in summary form on the Museum's intranet and the Directorate held open meetings with staff to explain the principles underlying it
- office notices are regularly issued to advise staff of events, organisational changes, common procedures and where to find information.

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 manager has maintained a high level of performance and awareness in the organisation and continues to achieve improvements in health and safety practice. A health and safety committee meets quarterly, acting as a forum to consider accident records and for health and safety issues to be aired between management and staff representatives.

A confidential employee assistance programme, offering independent professional help on personal issues whether work related or otherwise, is available to all staff and continues to have a steady uptake.

Payment Policy

The Museum abides by the Better Payment Policy and aims to settle bills within 30 days or by the due date. In 2003/04 it paid 73% of invoices within the target.

Changes in Fixed Assets and Future Developments

There were no significant changes in fixed assets during the year. The Museum is developing a programme of improvements to the buildings and the care of the collections.

Neil MacGregor

Accounting Officer

John Boyd

Trustee

David Lindsay

Trustee

9 July 2004

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 judgements 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

John Boyd

Trustee

David Lindsay

Trustee

9 July 2004

STATEMENT ON INTERNAL CONTROL

1. **Scope of responsibility**

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 policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

As Chairman of the 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 Museum has a three-year Funding Agreement with its sponsor department, the Department for Culture, Media and Sport, which includes targets in support of the Department's own Public Service Agreement targets and which identifies the most significant risks to achievement of the Museum's objectives. Progress against the Funding Agreement targets is monitored at least twice a year.

2. **The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Museum's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the British Museum for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. **Capacity to handle risk**

The Accounting Officer has overall responsibility for the Museum's risk management framework. The Museum Management Board, which meets to receive and consider reports or recommendations for action or decision to the Accounting Officer, co-ordinates the management of risk within the Museum's departments and ensures that the Museum's risk register is kept up-to-date. It is facilitated for this purpose by the Director of Finance, with advice from Internal Audit. Risk management within departments is supplemented by risk assessments and monitoring by project managers for cross-departmental projects.

4. **The risk and control framework**

The Museum Management Board notifies new risks as they arise to the Director of Finance, who maintains the Museum's risk register. The Museum Management Board regularly reviews the risks on the risk register, reassesses their likelihood of occurrence and potential

impact and considers indicators for monitoring the risk, actions to reduce the likelihood and appropriate responses should the risk crystallise. The responsibility for managing each risk is assigned to a senior manager in the Museum.

The Audit Committee of the Board of Trustees reviews the risk register and actions taken at each of its meetings and suggests changes where appropriate. It focuses on the risks scored highest for combined likelihood and impact and challenges the Museum's officers for evidence of good management.

The risk management priorities for the Museum during 2003/04 have been to ensure elimination of the Museum's underlying deficit while sustaining the output of ongoing work by staff, to mitigate the potential impact of terrorist action in central London, to respond robustly to threats of negative legal and public relations activity and to ensure adequate attention to external stakeholders' needs.

Risk management is embedded within the organisation through established business planning and project management processes, which ensure that risks to achieving business plan initiatives are identified as the initiatives are developed and project risks are considered at each project gateway. A review of departmental and cross-departmental business continuity plans has identified a number of weaknesses. Further attention will be paid in 2004/05 to strengthening these plans.

5. Review of effectiveness

We have responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors, who issue an annual report which includes the Head of Internal Audit's opinion of risk management in the Museum and a statement of assurance on internal control.
- the Museum Management Board, which reports on the effectiveness of risk management and the Museum's system of internal controls to the Accounting Officer, who reports to the Audit Committee four times each year
- the Audit Committee, which has oversight of the internal audit function. The Chairman of Audit Committee reports to the Board of Trustees annually for its review of the effectiveness of risk management and the Museum's system of internal control, quarterly to provide updates on progress against action points on the risk register, and as required for emerging issues related to risk management. It has embarked on an intended series of meetings with the Museum's middle management to assure itself that risk management and internal controls are thoroughly understood and effectively implemented at operating level
- the executive managers within the Museum, who have responsibility for the development and maintenance of the internal control framework

- comments made by the external auditors in their management letter and other reports.

In addition, all budget-holders provide the Accounting Officer with annual Assurance Statements.

We have been advised on the implications of the result of our review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

6. Significant internal control problems

None

Neil MacGregor
9 July 2004

Charles Powell
9 July 2004

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 19 to 36 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 24 and 25.

Respective responsibilities of the Trustees, the Accounting Officer and Auditor

As described on page 13, 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 14 to 16 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 2004 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

19 July 2004

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

British Museum Financial Statements for the year ended 31 March 2004

Consolidated Income and Expenditure Account

For the year ended 31 March 2004

Income	Notes	2004 £000s	2003 £000s <i>restated</i>
Grant-in-aid	2(a)	37,355	36,469
Donations and legacies		1,064	1,027
Activities in the furtherance of the Charity's objectives		4,250	3,935
Activities for Generating Funds			
Sponsorship		293	610
Commercial Trading Activities	9(c)	15,850	15,848
Investment income and rent receivable	3	1,897	1,839
Less Income allocated to Capital Expenditure		(3,786)	(655)
		<u>56,923</u>	<u>59,073</u>
Expenditure			
Costs in furtherance of the Charity's Objectives		45,902	45,730
Costs of Generating Funds			
Fund raising and publicity		724	761
Commercial Trading Activities	9(c)	15,654	15,164
Investment Management Costs		13	20
Management and administration of the charity		464	382
Less depreciation allocated to Capital Funds		(7,563)	(8,295)
	5(b)	<u>55,194</u>	<u>53,762</u>
Surplus before loss on investments and exceptional items	5(c)	1,729	5,311
Gain/(Loss) on investments	5(d)	690	(997)
Actuarial Gain on defined benefit scheme		470	0
Exceptional item: Defined benefit pension scheme liability		0	(2,010)
Exceptional Item: Split of Shaw Fund		0	(371)
Exceptional Item: Early Retirement Costs	12	0	(7,182)
Exceptional Item: Profit on sale of Properties		0	19,712
Surplus/(Deficit) for the year		<u>2,889</u>	<u>14,463</u>
Transfers:			
From Restricted Capital Funds		435	985
(To)/From Designated Capital Funds		993	(18,928)
Surplus for the year after transfers		<u>4,317</u>	<u>(3,480)</u>
Deferred Restricted Income		(386)	(319)
Revenue Reserves at 1 April 2003		19,139	22,938
Revenue Reserves at 1 April 2004	14	<u>23,070</u>	<u>19,139</u>

The above figures do not reflect an increase in value of £50,690,000 arising from a revaluation of the Museum's fixed assets at 31 March 2004 (2003: £9,959,000) 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 2002/03 accounts have been restated to reflect the Museum's adoption of FRS17: Retirement Benefits. This is shown in the 2002/03 accounts as an Exceptional Item: Defined Benefit pension scheme liability.

The notes on pages 24 to 36 form part of these accounts
All amounts relate to continuing operations

Consolidated Statement of Financial Activities

For the year ended 31 March 2004

	Notes	Revenue Funds			Capital Funds				Total Funds			Total 2004 £000s
		Unrestricted £000s	Restricted £000s	Total £000s	Unrestricted £000s	Restricted £000s	Collection Acquisitions £000s	Permanent Endowment £000s	Unrestricted £000s	Restricted £000s	Permanent Endowment £000s	
Incoming Resources												
Grant-in-aid	2(a)	36,419	0	36,419	0	936	0	0	36,419	936	0	37,355
Donations and legacies		1,057		1,057	0	10,555	6,123	0	1,057	16,678	0	17,735
Activities in the furtherance of the Charity's objectives		1,980	1,929	3,909	0	0	0	0	1,980	1,929	0	3,909
Activities for Generating Funds												
Sponsorship		35	181	216	0	0	0	0	35	181	0	216
Commercial Trading Activities	9(c)	15,850	0	15,850	0	0	0	0	15,850	0	0	15,850
Investment income and rent receivable	3	1,846	90	1,936	1,294	369	0	0	3,140	459	0	3,599
		57,187	2,200	59,387	1,294	11,860	6,123	0	58,481	20,183	0	78,664
Resources Expended												
Costs in furtherance of the Charity's Objectives		35,744	2,633	38,377	0	7,525	0	0	35,744	10,158	0	45,902
Costs of Generating Funds												
Fund raising and publicity		718	0	718	0	6	0	0	718	6	0	724
Commercial Trading Activities	9(c)	15,654	0	15,654	0	0	0	0	15,654	0	0	15,654
Investment Management Costs		4	9	13	0	0	0	0	4	9	0	13
Management and administration of the charity		428	4	432	0	32	0	0	428	36	0	464
	5(a)	52,548	2,646	55,194	0	7,563	0	0	52,548	10,209	0	62,757
Net incoming resources-surplus	5(b)	4,639	(446)	4,193	1,294	4,297	6,123	0	5,933	9,974	0	15,907
Notional Costs												
Cost of capital	6	315	0	315	673	5,840	0	0	988	5,840	0	6,828
Net incoming/(outgoing) resources after notional costs		4,324	(446)	3,878	621	(1,543)	6,123	0	4,945	4,134	0	9,079
Reversal of notional costs		315	0	315	673	5,840	0	0	988	5,840	0	6,828
Net incoming resource-surplus	4	4,639	(446)	4,193	1,294	4,297	6,123	0	5,933	9,974	0	15,907
Gains/(Losses) on investment assets	5(c)	493	197	690	0	0	0	1,370	493	197	1,370	2,060
Actuarial Gain on defined benefit scheme		470	0	470	0	0	0	0	470	0	0	470
Revaluation of fixed assets	7(a)	0	0	0	516	50,690	0	0	516	50,690	0	51,206
Exceptional item: Defined benefit pension scheme liability		0	0	0	0	0	0	0	0	0	0	0
Exceptional Item: Split of Shaw Fund	14	0	0	0	0	0	0	0	0	0	0	0
Exceptional Item: Early Retirement Costs	14	0	0	0	0	0	0	0	0	0	0	0
Exceptional Item: Profit on sale of Properties		0	0	0	0	0	0	0	0	0	0	0
Net movement in funds		5,602	(249)	5,353	1,810	54,987	6,123	1,370	7,412	60,861	1,370	69,643
Fund balances brought forward at 1 April 2003		12,191	6,948	19,139	44,495	307,349	20,085	9,399	56,686	334,382	9,399	400,467
Transfers between funds		(1,118)	(304)	(1,422)	(2,255)	3,221	455	1	(3,373)	3,372	1	0
Fund balances carried forward at 31 March 2004		16,675	6,395	23,070	44,050	365,557	26,663	10,770	60,725	398,615	10,770	470,110

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 2002/03 accounts have been restated to reflect the Museum's adoption of FRS17: Retirement Benefits. This is shown in the 2002/03

accounts as an Exceptional Item: Defined benefit pension scheme liability.

The notes on pages 24 to 36 form part of these accounts

Consolidated Balance Sheet

As at 31 March 2004

	Notes	2004 £000s	2003 £000s <i>restated</i>
Fixed Assets			
Tangible assets	7(a)	388,106	322,381
Investments	8(a)	19,482	16,652
		<u>407,588</u>	<u>339,033</u>
Current Assets			
Stock-goods for resale		2,171	2,230
Debtors	10	5,259	4,514
Short term investments	8(b)	64,000	65,743
Cash at bank and in hand		5,919	8,111
		<u>77,349</u>	<u>80,598</u>
Creditors: amounts falling due within one year	11	(11,159)	(15,839)
Net current assets		<u>66,190</u>	<u>64,759</u>
Provision for liabilities and charges:			
Early retirement provision	12	(2,068)	(1,315)
Liability on defined benefit pension scheme		(1,600)	(2,010)
Net Assets		<u>470,110</u>	<u>400,467</u>
Represented by:			
Capital Funds			
Permanent Endowments	14	10,770	9,399
Restricted Funds		392,220	327,434
Unrestricted Funds		44,050	44,495
		<u>447,040</u>	<u>381,328</u>
Revenue Funds			
Restricted Funds	14	6,395	6,948
Unrestricted Funds		16,675	12,191
		<u>23,070</u>	<u>19,139</u>
Total Funds		<u>470,110</u>	<u>400,467</u>

The figures for 2003 have been restated to reflect the Museum's adoption of FRS17: Retirement Benefits

The notes on pages 24 to 36 form part of these accounts

Neil MacGregor

Accounting Officer

John Boyd

Trustee

David Lindsell

Trustee

9th July 2004

Museum Balance Sheet

As at 31 March 2004

	Notes	2004 £000s	2003 £000s
Fixed Assets			
Tangible assets	7(b)	386,180	319,591
Investments	8(a)	19,482	16,652
Investment in subsidiaries	9(a)	500	500
		<u>406,162</u>	<u>336,743</u>
Current Assets			
Debtors	10	6,901	4,892
Short term investments	8(b)	62,000	64,502
Cash in bank and in hand		3,987	6,696
		<u>72,888</u>	<u>76,090</u>
Creditors: amounts falling due within one year	11	(9,828)	(14,195)
Net current assets		<u>63,060</u>	<u>61,895</u>
Provision for liabilities and charges			
Early retirement provision	12	(2,068)	(1,315)
Net assets		<u>467,154</u>	<u>397,323</u>
Represented by:			
Capital Funds			
Permanent Endowments	14	10,770	9,399
Restricted Funds		392,220	327,434
Unrestricted Funds		42,124	41,705
		<u>445,114</u>	<u>378,538</u>
Revenue Funds			
Restricted Funds	14	6,395	6,948
Unrestricted Funds		15,625	11,837
		<u>22,020</u>	<u>18,785</u>
Total Funds		<u>467,134</u>	<u>397,323</u>

The notes on pages 24 to 36 form part of these accounts

Neil MacGregor

Accounting Officer

John Boyd

Trustee

David Lindsell

Trustee

9th July 2004

Consolidated Cash Flow Statement

For the year ended 31 March 2004

	Notes	2004 £000s	2003 £000s <i>Restated</i>
Net cash inflow from operating activities	15(a)	4,559	17,262
Returns on investments and servicing of finance:			
Interest received		2,591	1,674
Dividends received		627	319
Rents Receivable		309	321
Net cash inflow from returns on investments and servicing of finance		<u>3,527</u>	<u>2,314</u>
Investing Activities:			
Capital expenditure and financial investments:			
Purchase of tangible assets		(11,790)	(11,253)
Proceeds from sales of tangible assets		23	-
Purchase of fixed asset investments	8(a)	(26,089)	(4,881)
Receipts from sale of fixed asset investments	8(a)	25,835	7,674
Receipts from sale of tangible assets - Orsman Road		-	890
Receipts from sale of investment property - Study Centre		-	35,500
Net cash outflow from investing activities		<u>(12,021)</u>	<u>27,930</u>
Management of liquid resources			
Net (purchase) sale of short term investments		1,743	(43,743)
Increase/(Decrease)in cash	15(c)	<u><u>(2,192)</u></u>	<u><u>3,763</u></u>

The figures for 2003 have been restated to reflect the Museum's adoption of FRS17: Retirement Benefits
The notes on pages 24 to 36 form part of these accounts

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.

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. Capital and revenue elements are shown separately.

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 donors have 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.

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.

Collection Acquisitions

(e) Acquisitions for the collection since 1 April 2001, whether donated or purchased, 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.

Tangible Fixed Assets

(f) All assets are carried at current cost valuations unless the trustees consider that this is not materially different from historic cost. Depreciation is provided on all tangible assets, other than freehold land, at rates calculated to write off the value of each asset evenly over its expected useful life, as follows:

Freehold buildings	15 to 100 years
Capital improvements to leasehold properties	life of lease
Permanent gallery exhibitions	25 years
Plant and Machinery	10 to 15 years

- (g) **Investments**
Investments are stated at market value as at 31 March 2004. Realised and unrealised 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 realised and unrealised gains and losses on investments relating to the permanent endowment funds are recognised in the Statement of Financial Activities only.
- Freehold investment properties have been brought into the accounts at open market value and are not depreciated. This is in accordance with SSAP 19.
- (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) **Taxation**
The Museum is exempt from Income, Capital Gains and Corporation Tax as an Exempt Charity.

2(a). GRANT-IN-AID

£37,355,289 of Grant-in-aid has been received in the year (2003: £36,469,000) from the Museum's sponsor, the Department for Media and Culture, including £700,000 capital for building improvements (2003: £500,000) and £236,289 from the Capital Modernisation Fund for the Timelines project.

3. INVESTMENT INCOME AND RENT RECEIVABLE

	SOFA Capital 2004 £000s	SOFA Revenue 2004 £000s	I & E 2004 £000s	SOFA 2003 £000s	I & E 2003 £000s
Interest Receivable	1,442	1,437	1,397	2,462	1,359
Dividends Receivable	221	190	190	305	159
	<u>1,663</u>	<u>1,627</u>	<u>1,587</u>	<u>2,767</u>	<u>1,518</u>
Rents Receivable	0	309	309	0	321
	<u>1,663</u>	<u>1,936</u>	<u>1,896</u>	<u>2,767</u>	<u>1,839</u>

4. NET INCOMING RESOURCES

is stated after charging:	2004 £000s	2003 £000s
Auditors' remuneration: Comptroller and Audit General	38	40
Auditors' remuneration: Subsidiary Auditors	33	23
Auditors' remuneration: Other	3	3
Operating lease rentals: Hire of plant and machinery	16	18
Operating lease rentals: Land and buildings	889	894

5. TOTAL RESOURCES EXPENDED

5(a)	Staff	Other	Depreciation	Support	2004	2003
	Costs	Costs		Costs	Total	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Care, research and conservation	14,789	7,252	3,965	849	26,855	26,797
Public access and education	8,843	2,877	3,404	752	15,876	17,082
Trading - Charitable Objectives	1,571	1,411	156	33	3,171	1,851
	25,203	11,540	7,525	1,634	45,902	45,730
Fundraising and publicity	465	253	6	0	724	761
Commercial Trading Operations	4,670	7,767	403	2,814	15,654	15,164
Investment Management Costs	0	13	0	0	13	20
Management/admin of the charity	312	112	32	8	464	382
	30,650	19,685	7,966	4,456	62,757	62,057

5(b) Reconciliation of Statement of Financial Activities and Income and Expenditure Account

	2004	2003
	£000s	£000s
<u>Income Account</u>		
Income per the Statement of Financial Activities	59,387	59,409
Add Income restricted for capital	936	0
	60,323	59,409
Income used to capital expenditure	(3,786)	(655)
Deferred income recognised this year in the Income and Expenditure Account	386	319
Income as per the Income and Expenditure Account	56,923	59,073
<u>Expenditure Account</u>		
Expenditure per the Statement of Financial Activities	55,194	53,762
Expenditure as per the Income and Expenditure Account	55,194	53,762

5(c)	Staff Costs	2004	2003
		£000s	£000s
	Wages and salaries	24,917	25,821
	Social security costs	1,973	1,784
	Pension costs	3,062	3,313
	Agency staff costs	659	266
	Redundancy Costs	39	0
		30,650	30,918

5(d) Senior Staff Remuneration

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

	Remuneration for year	Remuneration for year	Real pension increase and related lump sum at age 60	Total accrued pension at 60 at 31.03.2004 and related lump sum	CETV at 31.03.03	CETV at 31.03.04	Real increase in CETV after adjustments for inflation and changes in market investment factors
	2004	2003	2004	2004	2004		
	£000s	£000s	£0-£2.5k (lump sum £2.5-£5k)	£50-£55k (lump sum £155-£160k)			
Neil Macgregor, Director and Accounting Officer	120	80	£0-£2.5k (lump sum £2.5-£5k)	£50-£55k (lump sum £155-£160k)	£820,000	£879,000	£23,685
Andrew Thatcher, Director of British Museum Co Ltd	94	91	N/A	N/A	N/A	N/A	N/A

The Director of The British Museum Company Limited received pension contributions of £8,400 in the year (2003, £8,000). He is not a member of the PCSPS nor of a final salary pension scheme.

The Trustees have approved that Mr Neil Macgregor's retirement age can be deferred to age 65.

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

	Senior Mangement	Staff	Agency and contract staff	Total
2004				
Care, research and conservation	1	447	32	480
Public access and education	0	385	16	401
Trading - Charitable Objectives	0	28	3	31
Fundraising and publicity	0	13	0	13
Commercial Trading Activities	1	117	0	118
Management and administration of the Museum	0	2	2	4
	<u>2</u>	<u>992</u>	<u>53</u>	<u>1,047</u>
2003				
Care, research and conservation	1	489	46	536
Public access and education	0	419	21	440
Trading - Charitable Objectives	0	20	3	23
Fundraising and publicity	0	13	0	13
Commercial Trading Activities	1	125	0	126
Management and administration of the Museum	0	2	2	4
	<u>2</u>	<u>1,068</u>	<u>72</u>	<u>1,142</u>

5(f) Trustees:

The Trustees neither received nor waived any emoluments during the year (2003: £nil). All Trustees are entitled to be reimbursed for reasonable travel and subsistence expenses incurred in the performance of their duties. In 2004 these amounted to £4,916 (2003: £10,291). The Museum made a contribution to Churchill College towards secretarial support for the Chairman of £11,024 (2003: £15,677).

6. NOTIONAL COST OF CAPITAL

Notional cost of capital is calculated as 3.5% of the average capital employed by the Museum in the year (6% 2003), excluding the capitalised value of collection items and any assets funded by donations or the public lottery.

7. TANGIBLE FIXED ASSETS

7(a) Consolidated Tangible Fixed Assets

	Freehold Land and Buildings £'000	Assets in the Course of Construction £'000	Leasehold Improvements £'000	Exhibitions and Galleries £'000	Collection £'000	Plant & Machinery £'000	Fit out and Equipment £'000	Total £'000
Current Cost								
At 1 April 2003:	271,207	6,594	757	21,831	20,085	0	20,796	341,270
Reallocation of assets	2,308	0	0	63	0	6,357	(7,492)	1,236
Additions during the year	7,258	9,798	1	0	6,578	0	118	23,753
Disposals during year	0	0	(758)	(5)	0	0	(240)	(1,003)
Transfer	4,441	(16,091)	0	8,058	0	2,586	1,006	0
Revaluation Adjustment	(15,813)	0	0	(11,418)	0	34,630	21,331	28,730
At 31 March 2004	<u>269,401</u>	<u>301</u>	<u>0</u>	<u>18,529</u>	<u>26,663</u>	<u>43,573</u>	<u>35,519</u>	<u>393,986</u>
Depreciation								
At 1 April 2003	5,851	0	134	3,336	0	0	10,805	20,126
Reallocation of assets	550	0	0	31	0	3,288	(3,869)	0
Disposals during year	0	0	(179)	0	0	0	(73)	(252)
Provided during the year	1,949	0	45	741	0	2,910	2,321	7,966
Revaluation Adjustment	(8,350)	0	0	(606)	0	(6,198)	(6,806)	(21,960)
At 31 March 2004	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,502</u>	<u>0</u>	<u>0</u>	<u>2,378</u>	<u>5,880</u>
Net Book Value								
At 31 March 2004	269,401	301	0	15,027	26,663	43,573	33,141	388,106
At 31 March 2003	265,356	6,594	623	18,495	20,085	0	9,991	321,144
Net book value at 31 March 2004 represent fixed assets for								
Directly Charitable Objectives	267,902	299	0	14,918	26,663	43,551	33,131	386,464
Other Activities	1,499	2	0	109	0	22	10	1,642
	<u>269,401</u>	<u>301</u>	<u>0</u>	<u>15,027</u>	<u>26,663</u>	<u>43,573</u>	<u>33,141</u>	<u>388,106</u>

7(b) Museum Tangible Fixed Assets

	Freehold Land and Buildings £'000	Assets in the Course of Construction £'000	Exhibitions and Galleries £'000	Collection £'000	Plant & Machinery £'000	Fit out and Equipment £'000	Total £'000
Current Cost							
At 1 April 2003:	271,207	6,594	21,831	20,085	0	17,936	337,653
Reallocation of assets	2,308	0	63	0	6,357	(7,492)	1,236
Additions during the year	7,258	9,798	0	6,578	0	0	23,634
Disposals during year	0	0	(5)	0	0	(229)	(234)
Transfer	4,441	(16,091)	8,120	0	2,586	1,006	62
Revaluation Adjustment	(15,813)	0	(11,480)	0	34,630	21,331	28,668
At 31 March 2004	269,401	301	18,529	26,663	43,573	32,552	391,019
Depreciation							
At 1 April 2003	5,851	0	3,336	0	0	10,112	19,299
Reallocation of assets	550	0	31	0	3,288	(3,869)	0
Disposals during year	0	0	0	0	0	(62)	(62)
Provided during the year	1,948	0	741	0	2,910	1,962	7,561
Revaluation Adjustment	(8,349)	0	(606)	0	(6,198)	(6,806)	(21,959)
At 31 March 2004	0	0	3,502	0	0	1,337	4,839
Net Book Value							
At 31 March 2004	269,401	301	15,027	26,663	43,573	31,215	386,180
At 31 March 2003	265,356	6,594	18,495	20,085	0	7,824	318,354
Net book value at 31 March 2004 represent fixed assets for							
Directly Charitable Objectives	267,902	299	14,918	26,663	43,551	31,205	384,538
Other Activities	1,499	2	109	0	22	10	1,642
	269,401	301	15,027	26,663	43,573	31,215	386,180

Equipment, Fixtures and Fittings have been renamed as Fit Out and Equipment, and Permanent Exhibitions have been renamed Exhibitions and Galleries, as this provides a better description of the Museum's assets

7(c) The historic cost of the land and buildings is not known.

All the Museum's properties have recently been revalued for accounting purposes by chartered surveyors in accordance with Guidance Notes issued by the Royal Institute of Chartered Surveyors and with FRS 15 - Tangible Fixed Assets. Valuations of the main Museum building at Great Russell Street and its perimeter buildings and of two properties used for storage at Orsman Road were carried out by Gerald Eve as at 31 March 2004. Valuations of investment properties in Bloomsbury and of operational properties at 1/2 Montague Place were carried out by Kinney and Green as at 31 March 2004. Valuation of Blythe House was carried out by Chestertons on 19 January 2004. The Museum was valued on a depreciated replacement cost basis and Blythe House and the Orsman Road properties were valued on an existing use basis.

As Exhibition and Gallery spaces incorporated an element of structural works, plant and machinery, and fit out works which were valued in the Gerald Eve valuation, these have been taken out of the asset category, leaving only showcases, signage, specialist lighting and plinths within the category.

Similarly the plant and machinery which had previously been included in the balance sheet is now subsumed within the Gerald Eve valuation of plant and machinery.

The valuation adjustment of £50,690,000 arises from the revaluations referred to above, and the application of relevant indices, provided by the Office of National Statistics, to other fixed assets. 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 on a shared basis with the rights and obligations of ownership accruing to the occupants. It has accordingly been included in the Museum's balance sheet at one third of the valuation.

Depreciation is calculated on the revalued amounts.

7 (d) Collection item additions came from a variety of sources in the year

	£'000
Items given in lieu of inheritance tax	500
Items purchased by the Museum Trust Funds	297
Items purchased from donations	3,032
Items donated or bequested	2,749
	<u>6,578</u>

8. INVESTMENTS

8(a) Fixed Asset Investments - Group and Museum

	2004	2003
	£000s	£000s
Market value at 1 April 2003	16,652	22,467
Less: disposals	(25,835)	(7,674)
Add: acquisitions at cost	26,089	4,881
Net loss on revaluation	2,576	(3,022)
Market value at 31 March 2004	<u>19,482</u>	<u>16,652</u>

Investments comprised the following:

Investment assets in the UK:

Listed Common Investment Funds	17,599	0
British Government Stocks	0	3,138
Listed Equities	0	5,146
Cash held as part of investment portfolio	0	3,459
Investment Properties	1,883	1,367
Investment assets outside the UK:		
Listed Equities	0	3,542
	<u>19,482</u>	<u>16,652</u>

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

8(b) Current Asset Investments

	2004	2003
	Cost	Cost
	£000s	£000s
Short Term Cash Deposits	<u>64,000</u>	<u>65,743</u>

9. SUBSIDIARIES

9(a) 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.

9(b) RESULTS OF TRADING SUBSIDIARIES

	BM Co	BMGC	Total	Total
	2004	2004	2004	2003
	£000s	£000s	£000s	£000s
Turnover	10,973	5,530	16,503	16,427
Cost of sales	(5,026)	(4,586)	(9,612)	(9,450)
Gross profit	5,947	944	6,891	6,977
Selling and distribution costs	(2,740)	0	(2,740)	(2,935)
Administrative expenses	(2,782)	(97)	(2,879)	(2,914)
Other operating income	118	0	118	162
Operating profit	543	847	1,390	1,290
Interest receivable	42	55	97	80
Fixed Asset Valuation Adjustment	0	0	0	49
Actuarial Gain on defined benefit scheme	470	0	470	0
Exceptional item: Defined benefit pension scheme liability	0	0	0	(2,010)
Exceptional item: write off of leasehold improvements	(547)	0	(547)	0
Contribution to the Trustees of the British Museum	(668)	(910)	(1,578)	(1,329)
Surplus/(deficit) retained in the Company	<u>(160)</u>	<u>(8)</u>	<u>(168)</u>	<u>(1,920)</u>

The operating profit of The British Museum Company Limited is stated after charging staff costs of £3,188,000 (2003: £3,017,000) and depreciation of tangible fixed assets of £413,000 (2003: £413,000) and has been adjusted for consolidation purposes to include the application of FRS 17 Retirement Benefits which has decreased the loss for the year by a net £383,000 (2003: decreased the profit for the year by £1,928,000).

The two subsidiaries have made Gift Aid contributions to the British Museum in the year of £1,578,000 (2003: £1,375,000)

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

	2004 Turnover £000s	2004 Costs £000s	2003 Turnover £000s	2003 Costs £000s
From The British Museum Company Limited	10,973	11,095	10,736	10,518
Other Operating Income	118	0	162	0
From The British Museum Great Court Limited	5,530	4,683	5,691	4,781
less transactions with the British Museum	(771)	(124)	(741)	(135)
	<u>15,850</u>	<u>15,654</u>	<u>15,848</u>	<u>15,164</u>

Net assets at 31 March 2002 comprise:

	BM Co 2004 £000s	BMGC 2004 £000s	BM Co 2003 £000s	BMGC 2003 £000s
Tangible fixed assets	1,915	0	2,764	0
Current assets	4,485	2,572	4,166	2,023
Creditors due within one year	(1,817)	(2,088)	(1,792)	(1,532)
Net assets	<u>4,583</u>	<u>484</u>	<u>5,138</u>	<u>491</u>

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.

10. DEBTORS

	Group		Museum	
	2004 £000s	2003 £000s	2004 £000s	2003 £000s
Trade debtors	543	791	253	119
Other debtors	1,063	1,124	1,031	1,065
Prepayments and accrued income	3,653	2,599	4,784	2,142
Amount due from subsidiaries	0	0	833	1,566
	<u>5,259</u>	<u>4,514</u>	<u>6,901</u>	<u>4,892</u>

11. CREDITORS

	Group		Museum	
Amounts falling due within one year:	2004 £000s	2003 £000s	2004 £000s	2003 £000s
Trade creditors	3,047	2,221	2,657	1,575
Other creditors	2,678	708	2,417	594
Provision for legal fees	30	0	30	0
Early Retirement Provision	2,109	6,170	2,109	6,170
Accruals and deferred income	3,295	6,740	2,635	5,840
Amount due to subsidiaries	0	0	0	16
	<u>11,159</u>	<u>15,839</u>	<u>9,848</u>	<u>14,195</u>

12. PROVISIONS AND CHARGES

Early retirement commitments at 31 March 2004 are as follows:

	2004 £000s	2003 £000s
Pension provision brought forward	7,485	1,057
Provision made in year	39	7,182
Payments in year	(3,347)	(754)
	<u>4,177</u>	<u>7,485</u>
Less current portion - included in creditors amounts falling due within one year	(2,109)	(6,170)
	<u>2,068</u>	<u>1,315</u>

The Museum has made provision to cover legal costs of £30k. As these are considered likely to be used within one year they have been included in creditors.

13. FINANCIAL COMMITMENTS

At 31 March 2004 the British Museum had annual commitments under operating leases as follows:

	Land and Buildings		Plant and Machinery	
	2004 £000s	2003 £000s	2004 £000s	2003 £000s
Leases which expire: within one year	21	500	12	0
in the second to fifth year	34	67	3	25
over five years	175	221	0	0
	<u>230</u>	<u>788</u>	<u>15</u>	<u>25</u>

14. STATEMENT OF FUNDS

	At 1 April 2003 £000s	Income £000s	Revaluation/ Expenditure £000s	Investment gains/losses £000s	Movement during year £000s	Transfers between funds £000s	At 31 March 2004 £000s
Capital Funds							
<i>Permanent Endowment Funds</i>	9,399	0	0	1,370	1,370	1	10,770
<i>Restricted Capital Funds</i>							
Collection Acquisitions Fund	20,085	6,123	0	0	6,123	455	26,663
<i>Restricted Capital Funds</i>							
Collection Purchase Fund	485	0	0	0	0	(65)	420
Fixed Asset Revaluation Fund	169,595	7,258	0	50,690	57,948	0	227,543
Estates Proceeds	6,052	0	0	0	0	(3,016)	3,036
Construction Projects Fund	2,543	3,666	0	0	3,666	(3,625)	2,584
Fixed Asset Fund	128,674	936	7,563	0	(6,627)	9,927	131,974
	<u>307,349</u>	<u>11,860</u>	<u>7,563</u>	<u>50,690</u>	<u>54,987</u>	<u>3,221</u>	<u>365,557</u>
<i>Unrestricted Capital Funds: Museum</i>							
Investment Estate Revaluation Fund	2,604	0	0	516	516	(1,237)	1,883
Study Centre proceeds	35,164	1,294	0	0	1,294	0	36,458
Fire Safety Security Fund	2,623	0	0	0	0	0	2,623
Gallery Refurbishment Reserve	814	0	0	0	0	(154)	660
Maintenance Reserve	500	0	0	0	0	0	500
	<u>41,705</u>	<u>1,294</u>	<u>0</u>	<u>516</u>	<u>1,810</u>	<u>(1,391)</u>	<u>42,124</u>
<i>Unrestricted Capital Funds: Subsidiary</i>							
British Museum Co Ltd Fixed Assets	2,790	0	0	0	0	(864)	1,926
Group Unrestricted Capital Funds	44,495	1,294	0	516	1,810	(2,255)	44,050
Revenue Funds							
<i>Restricted Revenue Funds</i>							
Restricted Income Trust Funds	1,876	53	119	197	131	(572)	1,435
Deferred Income Fund	5,072	2,147	2,527	0	(380)	268	4,960
	<u>6,948</u>	<u>2,200</u>	<u>2,646</u>	<u>197</u>	<u>(249)</u>	<u>(304)</u>	<u>6,395</u>
<i>Unrestricted Revenue Funds: Museum</i>							
Unrestricted Trust Funds	4,714	284	89	493	688	571	5,973
Oriental Research Fund	79	3	8	0	(5)	0	74
General Funds	7,044	40,183	35,096	0	5,087	(2,553)	9,578
	<u>11,837</u>	<u>40,470</u>	<u>35,193</u>	<u>493</u>	<u>5,770</u>	<u>(1,982)</u>	<u>15,625</u>
<i>Unrestricted Revenue Funds: Subsidiaries</i>							
British Museum Co Ltd	363	11,133	11,763	470	(160)	864	1,067
The British Museum Great Court Ltd	(9)	5,584	5,592	0	(8)	0	(17)
	<u>354</u>	<u>16,717</u>	<u>17,355</u>	<u>470</u>	<u>(168)</u>	<u>864</u>	<u>1,050</u>
<i>Unrestricted Revenue Funds: Group</i>	<u>12,191</u>	<u>57,187</u>	<u>52,548</u>	<u>963</u>	<u>5,602</u>	<u>(1,118)</u>	<u>16,675</u>
Total Funds	400,467	78,664	62,757	53,736	69,643	0	470,110

The opening balance on the British Museum Co Ltd Unrestricted Revenue Funds are restated to reflect the adoption of FRS17: Retirement Benefits. The opening balance is restated to £363k from £2,373k.

The restrictions placed on investment of the Brooke Sewell Bequest by the Court in 1983 were lifted in 2003-04. The fund, valued at £572,000 at 31 March 2004, has been transferred from restricted to unrestricted revenue Trust Funds.

Analysis of group net assets between funds

	Permanent Endowments £000s	Unrestricted Funds £000s	Restricted Funds £000s	Total 2004 £000s
Fund balances at 31 March 2004 are represented by:				
Tangible Fixed Assets	0	1,642	386,464	388,106
Fixed Asset Investments	10,823	7,304	1,355	19,482
Current Assets	0	65,972	11,377	77,349
Current Liabilities	(53)	(10,525)	(581)	(11,159)
Early retirement provision	0	(2,068)	0	(2,068)
Liability on defined benefit pension scheme	0	(1,600)	0	(1,600)
Total Net Assets	10,770	60,725	398,615	470,110

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.

Capital Funds: Restricted

These consist of a number of funds largely representing the capitalised value of restricted and inalienable fixed assets, including collection items which have been acquired since 1 April 2001.

Capital Funds: Unrestricted

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

Study Centre Proceeds

Proceeds from the sale of a property, the original purchase of which was partly financed by unrestricted revenue Trust Funds.

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 donors have specified the uses 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.

Sir Joseph Hotung Research

A donation from Sir Joseph Hotung to support research by the Departments of Ancient Near East and Asia

Sharpe Bequest

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

Unrestricted Trust Funds

Shaw Fund

A share of the residue of the estate of George Bernard Shaw to be used for the general purposes of the Museum. Equal division of the fund between the British Museum and the British Library was completed in 2003-04.

15. CASH FLOW INFORMATION

Reconciliation of net incoming resources to net cash inflow from operating activities.			
	2004		2003
	£000s		£000s
			<i>Restated</i>
15(a)	Net incoming resources before revaluations	15,907	5,421
	Exceptional item: Early Retirement Provision	0	(7,182)
	Exceptional item: Split of Shaw Fund	0	(371)
	Donated assets - Blythe House and collection bequests	(10,007)	(940)
	Investment Income	(3,527)	(2,314)
	(Decrease)/Increase in Shaw Fund Creditors	(829)	(3,000)
	Depreciation	7,966	8,678
	Decrease/(Increase) in stocks	59	281
	Decrease/(increase) in non-interest/dividend debtors	(673)	9,982
	(Decrease)/Increase in early retirement creditors	(4,061)	5,695
	(Decrease)/Increase in early retirement provisions	753	733
	(Decrease)/Increase in non early-retirement creditors	(619)	(1,731)
	(Decrease)/Increase in pension fund provision	(410)	2,010
	Net cash inflow from operating activities	<u>4,559</u>	<u>17,262</u>
15(b)	Reconciliation of net cash flow to movement in net funds		
	Increase/(Decrease) in cash in the period	(2,192)	1,753
	Cash flow from decrease in liquid resources	<u>(1,743)</u>	<u>43,743</u>
	Movement in net funds in the period	(3,935)	45,496
	Net funds at 1 April	<u>73,854</u>	<u>28,358</u>
	Net funds at 31 March	<u>69,919</u>	<u>73,854</u>
15(c)	Analysis of net funds		
	2003	Cash Flow	2004
	£000s	£000s	£000s
	Liquid Resources:		
	Short Term Deposits	65,743	(1,743)
	Cash at bank and in hand	8,111	(2,192)
		<u>73,854</u>	<u>69,919</u>

The 2003 figures are restated to take account of FR17: Retirement Benefits

16. 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.

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. Mr Tom Phillips is a member of the Management Committee of The Royal Academy from whom the Museum leased the Museum of Mankind until April 2004

Sir Michael Hopkins is also the Architect to the Royal Academy.

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 Kings Library Project and to purchase the Ringlemere Cup, Burney Relief and the Mullanphy Collection.

Professor Jean Thomas is a governor of the Wellcome Trust which sponsored 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. He was also a Commissioner for the Millenium Commission until December 2003. The British Museum has obligations to the Commission in respect of the Great Court.

The British Museum has loaned items from the collections to the following organisations during 2003-04 which have the Department for Culture, Media and Sport or other Government Departments as a parent organisation:

National Museum of Science and Industry	Natural History Museum, London
National Gallery, London	Imperial War Museum
British Library, London	Historic Royal Palaces
National Maritime Museum	Victoria and Albert Museum
National Portrait Gallery of Scotland	Tate Gallery, London
National Museums on Merseyside	National Museums of Wales

The British Museum has borrowed items from the collections of the following organisations during 2003-04 which have the Department for Culture, Media and Sport as the sponsoring department:

National Museums of Scotland	National Museums on Merseyside
Tate Gallery, London	Natural History Museum, London
Victoria and Albert Museum	British Library, London

17. CAPITAL COMMITMENTS

At the balance sheet date, outstanding capital commitments approved amounted to some £413,421 of which £213,447 was contracted for.

18. 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 2003-04, contributions of £2,674,518 (£3,026,699 for 2002-03) 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 2003-04 these rates were as follows: for salaries £17,500 and under, 12%, for salaries between £17,501 and £36,000, 13.5%, for salaries between £36,001 to £62,000, 16.5%, for salaries over £62,001, 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.

A full actuarial valuation of the scheme was carried out on 1 May 2002 and updated to 31 March 2004 by a qualified independent actuary to reflect the difference in actuarial assumptions and the time period elapsed.

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 2002 was £3,625,618. The actuarial value of those assets was sufficient to cover 90% 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 2003, 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 £201,000.

The major assumptions used by the actuary for the 31 March 2004 valuation were as follows:

	% per annum 2004	2003
Rate of increase in salaries*	2.0%	2.0%
Rate of increase in inflation*	2.0%	2.0%
Rate of increase of Guaranteed Minimum Pensions (GMP) earned before 6 April 1988	N/A	N/A
Rate of increase of Guaranteed Minimum Pensions (GMP) earned after 6 April 1988	5.0%	5.0%
Rate of increase of pensions in excess of GMP earned before 30 April 1991	3.0%	3.0%
Rate of increase of pensions in excess of GMP earned after 30 April 1991 but before 1 January 2002	5.0%	5.0%
Rate of increase of pensions in excess of GMP earned after 1 January 2002	1.8%	1.8%
Rate of revaluation of GMPs	Fixed Rate	Fixed Rate
Rate of revaluation of deferred pensions in excess of GMP	5.0%	5.0%
Discount Rate	5.5%	5.5%
* chosen by employer		

The assets in the scheme and the expected long term rate of return were:

	Long term rate of return expected at 31.03.2004		Long term rate of return expected at 31.03.2003	
	%	£ million	%	£ million
Equities	7.5	2.65	8.0	1.94
Bonds	5.5	1.14	5.5	0.89
Other	4.0	0.01	4.0	0.12
Total market value of assets		<u>3.80</u>		<u>2.95</u>
Present value of scheme liabilities		5.40		4.96
Surplus (deficit) in the scheme		<u>(1.60)</u>		<u>(2.01)</u>

Analysis of the amount charged to operating profit

	31.03.2004 £ million	31.03.2003 £ million
Current service cost	0.20	0.20
Past service cost	-	-
Total operating charge	<u>0.20</u>	<u>0.20</u>

Analysis of the amount credited to other financial income

	31.03.2004 £ million	31.03.2003 £ million
Expected return on pension scheme assets	0.26	0.21
Past service cost	0.32	0.27
Net Return	<u>(0.06)</u>	<u>(0.06)</u>

Analysis of the amount recognised in Statement of Financial Activities

	31.03.2004 £ million	31.03.2003 £ million
Actual return less expected return on pension scheme assets	0.45	(0.75)
Experience gains and losses arising on the scheme liabilities	0.02	0.94
Changes in assumptions underlying the present value of the scheme liabilities	0.00	(0.37)
Actuarial gain recognised in SOFA	<u>0.47</u>	<u>(0.18)</u>

Movement in surplus during the year

	31.03.2004 £ million	31.03.2003 £ million
Surplus (deficit) in scheme at beginning of year	(2.01)	(1.77)
Movement in year:		
Current service costs	(0.20)	(0.20)
Contributions	0.20	0.20
Past service costs	-	-
Other finance income	(0.06)	(0.06)
Actuarial gain	0.47	(0.18)
Surplus (deficit) in scheme at end of year	<u>(1.60)</u>	<u>(2.01)</u>

History of experience gains and losses		
	31.03.2004	31.03.2003
Difference between the expected and actual return on scheme assets:		
amount (£ million)	0.47	(0.75)
percentage of scheme assets	12%	25%
Experience gains and losses on scheme liabilities:		
amount (£ million)	0.02	0.94
percentage of the present value of the scheme liabilities	0%	19%
Total actuarial gains recognised in the SOFA		
amount (£ million)	0.47	(0.18)
percentage of the present value of the scheme liabilities	9%	4%

19. CONTINGENT LIABILITIES

The Museum has no contingent liabilities at the year end.

20. LOSSES AND SPECIAL PAYMENTS

After taking legal advice the Museum made an extra contractual payment in the year of £555,000 in settlement of the PFI project relating to the Study Centre.

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 2003-04 £37,355,000 of the British Museum's income derived from Grant in Aid provided by the Department for Culture, Media and Sport. £3,599,000 of income derived from returns on its investments. £15,850,000 of income came from the Museum's commercial trading activities and £17,913,000 from donations and legacies.

At the Balance Sheet date the Museum had net assets of £482 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 £16 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	Fixed rate	Non interest	Investments-	Total
	Financial	Financial	bearing	Stocks and	
	Assets-Cash	Assets-Cash	Financial	Equities	
	and Deposits	and Deposits	Assets-Cash		
			and Deposits		
	£000s	£000s	£000s	£000s	£000s
As at 31.03.04	2,883	65,643	636	17,637	86,799
As at 31.03.03	6,267	71,046	3,542	8,284	89,139

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.

Electronic publication of accounts

The accounting officer acknowledges that it is his responsibility to ensure that electronic publication of the accounts on the BM's website properly presents the financial information and auditor's report.

Appendix 1

The Board of Trustees

Sir John Boyd KCMG (*Chairman*)
HRH The Duke of Gloucester KG, GCVO ⁽¹⁾
(*retired 29 September 2003*)
Mr Charles Allen-Jones
Mr Hasan Askari
Mr Nicholas Barber
(*retired 29 September 2003*)
Lord Broers (*appointed 21 May 2004*)
Lord Browne of Madingley
Professor Barry Cunliffe ⁽⁴⁾
The Countess of Dalkeith
Ms Val Gooding (*appointed 1 January 2004*)
Sir Michael Hopkins CBE, RA, RIBA
(*retired 15 January 2004*)
Sir Joseph Hotung
Professor Martin Kemp FBA
Dr Olga Kennard ⁽⁵⁾
(*appointed 1 April 2004*)

Mr Philip Lader ⁽⁶⁾
Mr Richard Lambert (*appointed 26 June 2003*)
Mrs Edmée Leventis
(*appointed 28 November 2003*)
Mr David Lindsell
Mr Christopher McCall QC
(*resigned 8 January 2004*)
Mr David Norgrove (*appointed 23 March 2004*)
Mr Tom Phillips RA ⁽²⁾
Lord Powell of Bayswater ⁽⁶⁾
Dr Anna Ritchie
Mr Eric Salama
Mr Vikram Seth CBE (*appointed 10 February 2004*)
Professor Jean Thomas CBE, FRS ⁽⁵⁾
(*retired 31 March 2004*)
Sir Keith Thomas FBA ⁽³⁾
Sir John Tusa ⁽⁶⁾

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 the Standing Committee and the Nominations and Governance Committee

Standing Committee

Sir John Boyd (*Chairman*)
Mr Charles Allen-Jones
Lord Browne of Madingley
Professor Barry Cunliffe
The Countess of Dalkeith
Mr Richard Lambert
Sir Joseph Hotung
Mr David Lindsell
Sir Keith Thomas

Audit Committee

Lord Powell (*Chairman*)
Professor Martin Kemp
Dr Olga Kennard
Mr Philip Lader
Mr David Norgrove

Nominations and Governance Committee

Sir John Boyd (*Chairman*)
Mr Hasan Askari
Ms Val Gooding
Mr Tom Phillips
Dr Anna Ritchie
Sir John Tusa

Trustee membership of related Councils and Boards

British Museum Company Limited: Board of Directors

Mr Eric Salama (*Chairman*)
Professor Barry Cunliffe
Sir John Tusa

British Museum Friends: Council

Mr David Lindsell
Professor Barry Cunliffe

British Museum Development Trust: Board of Trustees

The Countess of Dalkeith (*Chair*)
Sir John Boyd
Hon Philip Lader
Mr Richard Lambert

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
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:	The British Museum, Great Russell Street, London WC1B 3DG
Investment Adviser to the Trustees:	Mr P J Manser CBE DL
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, Head of Legal Services, British Museum