

BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006

Ordered by the House of Commons to be printed on 6 June 2007

NATIONAL HERITAGE ACT 1983

Annual Report and Accounts of the Board of Trustees of the Royal Armouries for the year ended 31 March 2006, together with the report of the Comptroller and Auditor General thereon.

Presented pursuant to National Heritage Act 1983, c. 47, Sch 1, paragraphs 29(7) and paragraph 30 (4)

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ANNUAL REPORT

INTRODUCTION

The Board of Trustees of the Royal Armouries was established on 1 April 1984 in accordance with the provisions of the National Heritage Act 1983. It is responsible for the National Museum of Arms and Armour and an historic record of HM Tower of London. The main site of the Museum is at Armouries Drive, Leeds LS10 1LT. There are also branches of the Museum in HM Tower of London and Fort Nelson, Fareham, Hampshire. Hampshire County Council owns Fort Nelson and HM Tower of London is operated by Historic Royal Palaces. The Museum uses both sites rent-free. The Royal Armouries also has a gallery in the Frazier International History Museum in Louisville, Kentucky.

Legal Status

The Royal Armouries has the status of a non-departmental public body, operating in the public sector but at arm's length from its sponsor department, the Department for Culture, Media and Sport (DCMS). The Royal Armouries agreed a *Management Statement* and *Financial Memorandum* with the DCMS in 2002-03 and receipt of Grant-in-Aid is dependent upon the Museum's compliance. The Museum is an exempt charity under the Charities Act 1993.

The Organisational Structure

The governing body is the Board of Trustees, which was established in 1984 in accordance with the National Heritage Act. Trustees are appointed by the Secretary of State, with the exception of two Trustees, one who is appointed by HM The Queen, and the Constable of the Tower of London who is an ex-officio member of the Board. The members are appointed on fixed terms of service and are non-executive and unpaid.

The role of the Board is to determine policies, establish overall strategic direction, monitor and review performance and appoint key managerial positions. The Board

meets six times a year and is advised and supported by four sub-committees: the Finance Committee, the Audit Committee, the Development Committee and the Commercial Committee.

Paul Evans, Chief Executive, is the nominated Accounting Officer for the Museum and is responsible 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 the resources under his control. Along with the Accounting Officer, three Directors; the Museum Director, Administration Director and Commercial Director make up the Royal Armouries Executive team. The Royal Armouries Executive is accountable to the Board of Trustees.

Staff Communications

The Royal Armouries is committed to developing good staff communication channels. The Chief Executive gives staff briefings on all major topics, including the Museum's strategic direction, financial position and actual performance against target. Senior managers have regular team meetings to keep staff informed and updated on plans and progress.

Museum representatives meet with officials from the Trade Unions to discuss mutual issues, pay negotiations and benefits.

Equal Opportunities

It is the Royal Armouries' policy that all individuals shall have equal opportunity for employment and advancement in the Royal Armouries on the basis of their ability, qualifications and relative merits. The aim of the policy is to ensure that every employee or prospective employee will receive equally favorable treatment regardless of their gender, marital status, sexual orientation, race, religion or physical disability. The

Royal Armouries is committed to making the policy effective and will continually monitor and review the Museum's employment practices.

Relationship between charity and related parties

The Royal Armouries is a Non-Departmental Public Body whose sponsor is DCMS. The DCMS is regarded as a related party.

REVIEW OF PERFORMANCE DURING THE YEAR

Objectives and Activities

In adherence with the National Heritage Act 1983, Royal Armouries will:

- Care for, preserve and add to the objects in their collection of arms, armour and associated objects,
- Secure that the objects are exhibited to the public,
- Secure that the objects are available to persons seeking to inspect them in connection with study or research,
- Maintain a record (which may include books, pictures and other articles) relating to their collection, to arms and armour generally and to the Tower, and
- Generally promote the public's enjoyment and understanding of arms and armour, both by means of the Board's collection and by such other means, as they consider appropriate.

Key Objectives 2005-06

Community: To be more community focused through the development of projects such as those funded by the DCMS/DfES National/Regional Museum Partnership Programme. The projects began with a re-branding exercise of the Education Department using the areas of 'Power and Conflict' to refocus the work and culminated in a major re-launch of the department in 2006.

Heritage Attraction: To begin the process of the physical, virtual and live re-interpretation of the collection across the three sites so that audiences regardless of age, ability, race or religion can engage at any level with the collection and gain from that experience. The process will begin with the Shogun exhibition and the re-interpretation of permanent areas focusing on 'telling one story simply'.

Financially Strong: To continue to expand the success of the Royal Armouries Live to deliver external interpretations and events. To become fundraising fit and deliver a strong funding and sponsorship strategy.

Partnership: To develop a Personal Leadership Programme so that it becomes central to the operation of our organisation by establishing Royal Armouries values.

Promote Understanding: To successfully commission the National Firearms Centre so that it becomes recognised as the premier firearms testing, research and ballistics facility.

Achievements 2005-06

Community

A grant from DCMS/DfES enabled Royal Armouries to develop and deliver successfully both the Flashpoint and LEAP projects. Flashpoint - a project using drama workshops to help young people examine conflict and develop alternative strategies for dealing with it - was delivered to six secondary schools in Leeds and four in Portsmouth.

The LEAP programme, delivered in conjunction with the youth charity LEAP, dealt with conflict by completing 'conflict audits' on each of the schools involved. Workshops were held to identify disruptive conflict and to develop key skills in working with challenging behaviour. A number of young people were identified to become positive role models and trainers who could continue the work within the schools once the programme had been completed. Two schools took part in the programme: Carr

Manor and Rodillian as well as Royal Armouries staff. As a result over 300 pupils have been trained and 38 selected to become trainers for the future.

The Leeds Education department in conjunction with Leeds City Council and DfES delivered a Second World War educational programme to over 500 pupils as part of the national programme marking the 60th anniversary since the conflict.

Heritage Attraction

During the summer of 2005 the Leeds museum in partnership with the Nikko Toshogu Shrine in Japan, held a major exhibition entitled 'Shogun: the life of Tokugawa Ieyasu'.

The exhibition showcased some of the Royal Armouries' best Japanese objects as well as affording the public the opportunity to see objects and artwork never seen outside of Japan before. The 80-day exhibition played host to over 35,000 visitors as well as generating ticket revenue of approximately £100,000. The museum received sponsorship towards the exhibition from Japanese Airlines, Pioneer and Yorkshire Forward.

Following a successful collaboration with a photographic artist and West Yorkshire Police, a two-phase permanent exhibition based around the effects of gun crime both locally and internationally was developed. The first phase opened in November 2005, detailing through video testimony, the effects of a homicide on a Leeds family and their friends. The second phase opened on the 10th anniversary of the tragedy at Dunblane and gave an international perspective, with particular reference to legislation and its effect or not on gun culture. This was the first exhibition delivered under the banner of 'power and conflict'.

In July 2005 the Royal Armouries was awarded £148,000 by the DCMS/Wolfson Trust to develop 'Hands on History' displays in both Leeds and Portsmouth. Work began in early 2006 on the new displays; they will allow the visitor more direct access to the collection. The opening of 'Hands on History' place in July 2006.

The Royal Armouries played an important role in the celebrations of two anniversaries in 2005. At the Tower of London it supported the 400th anniversary of the Gunpowder Plot with a small exhibition; at Fort Nelson it supported the 200th anniversary of the Battle of Trafalgar by restoring and firing a gun from 1805.

Financially Strong

During the year the events department continued to develop and expanded its external events programme. In conjunction with external partners such as National Trust of Scotland, English Heritage, Harewood House, Arundel Castle and the Great Yorkshire Show, it delivered historic entertainment ranging from small interpretations to full sized Jousting Tournaments. The events brought to the Museum a new audience, raised the museum's profile nationally and opened up new revenue streams.

Partnership

The Personal Leadership Programme focused on reflection, self-appraisal and behavioural impact. The Induction process was improved to include more face-to-face delivery. A series of informal training packages, such as 'Lunch and Learn' and 'Just-in-Time' were introduced for junior and middle managers. In July 2005, with the support of the Trade Union, a job evaluation was conducted throughout the organisation. The information from the evaluation was used to establish internal equity, define new job groups and new pay ranges.

Promote Understanding

On the 1st September 2005 the Royal Armouries assumed responsibility for the care and maintenance of the Pattern Room collection from the Ministry of Defence. The Collection consists of approximately 14,600 items of small arms, light weapons and medium cannons. These objects along with some the Museum's own collection formed the basis for the National Firearms Centre. The collection will be used primarily as a reference collection for an official group of users as well as providing a source of information to Forensic Alliance, a private partner, who provides ballistic information to official sources.

Major Acquisitions 2005/06

- Pair of tassets, probably Italian, late 15th century. From the armoury of the Knights of St John on Rhodes
- Sallet. Western European, mid-15th century. Part of the find of swords and other material found near the site of the battle of Castillon
- Sallet. Probably Italian, late 15th century. From the armoury of the Knights of St John on Rhodes
- Hunting sword, south German lands, about 1500
- Ballock dagger, English, early 15th century
- Flintlock breech-loading 4 bore rifle by Durs Egg. English about 1810
- Saddle of lacquered wood decorated with cranes. Japanese, late Edo period, 19th century.

Future Plans

2006 was the 10th anniversary of the opening of the Leeds Museum and a series of events were staged during the year. These included

- The removal, cleaning and replacing of the 2,400 objects currently on display in the Hall of Steel;
- The opening of the DCMS/Wolfson funded Hands on History War Gallery;
- The production of a new souvenir brochure and guide, on sale from June 2006;
- An exhibition entitled 'Alex Rider: the fact and fiction of a secret agent', based on the books by Anthony was opened in June 2006. This coincided with the launch of a major UK film based on the character Alex Rider;
- The Flashpoint project will be introduced into primary schools during 2006/07; and
- Training programmes initiated by the National Firearms Centre in partnership with a private security training company will begin in 2007, with the first courses aimed at police forces throughout the UK.

PERFORMANCE AGAINST THE TARGETS IN 2005-06 FUNDING AGREEMENT

The Three Year Funding Agreement between the Museum and the Department for Culture, Media and Sport establishes 7 core targets for the Museum. 2005-06 was the first year of a three-year agreement. The targets for 2005-06 and the actual performance achieved against each of them are set out below.

Performance Indicator	2005-06 Target	2005-06 Outturn
Total number of visits	425,000	394,720
No of unique users visiting the website	180,000	233,652
Number of adult UK visitors (aged 16 and over) from NS-SEC groups 5-8 attending the Museum	33,150	37,498
Number of children aged 15 and under in on and off-site organised educational sessions	100,000	103,940
Number of children aged 15 and under visiting the Museum	165,000	159,610
Net income from trading (including corporate hire)	220,000	£296,000
Efficiency Savings	£488,000	£232,000

FINANCIAL REVIEW

Overview of financial position

The financial statements have been prepared in accordance with the Statement of Recommended Practice 2005 (SORP 2005) Accounting for Charities. In accordance with the SORP, the total amount of grant and other income received for capital projects is included in the Statement of Financial Activities on page 29.

In 2005-06 the Royal Armouries recorded an operating surplus of £9k; this is made up of a £17k Museum deficit set against a £26k Royal Armouries Development Trust surplus.

The Museum's Statement of Financial Activities (SOFA) is set out on page 29 of this document. Incoming resources for the period amounted to £10,791k which included government grants amounting to £7,575k and £1,535k from the surrender of a lease on the car park; resources expended amounted to £10,354k, resulting in a net incoming resources of £437k (before notional costs and revaluations). £1,565k was attributable to depreciation provisions, and financed from the capital project income credited to designated and restricted funds in previous years.

Visitor levels to the Museum during 2005-06 were lower than budgeted and this adversely affected the commercial income. Events income was substantially up on previous years due to the summer exhibition, 'Shogun: the life of Tokugawa Ieyasu' held in partnership with the Nikko Toshogu Shrine and the introduction of charging for Tiltyard shows. Sponsorship and donations dropped from £198k in 2004-05 to £113k in 2005-06. Contributions to costs of £100k were received from Historic Royal Palaces.

Total resources expended included salaries and related employee costs of £4,845k which was an increase £321k over the previous year. Salary expenditure accounted for 43.9% of operational cost and depreciation at £1,565k for 15.1%. Tight cost controls due to a reduction in self-generated income meant that there were restrictions on discretionary spending for the last six months of the year.

BALANCE SHEET

Of the fund balances at 31 March 2006:

- restricted funds, subject to specific restriction by the providers of the funds, amounted to £44,203k (2004-05: £41,539k);
- designated funds, set aside to finance tangible fixed assets other than the Leeds Museum, amounted to £7,024k (2004-05: £7,203k); and
- the surplus on general unrestricted funds available for use in furtherance of the general objectives of the Museum, amounted to £189k (2004-05: £207k).

By virtue of the National Heritage Act 1983, the Museum was vested with the property and objects, which formed part of the collection of arms and armour, or were associated with the maintenance or administration of the collection. The value of the collection was not identified in the records passing into the Museum's ownership. In accordance with the Financial Reporting Manual additions to the collection since 1 April 2001 are capitalized and recognized in the Balance Sheet, at the cost or value of the acquisition. Such items are not depreciated or revalued as a matter of routine. Acquisitions to the value of £131k were capitalized in 2005-06.

Under the terms of its government grant, the Museum is required to break-even, taking one year with another. It does not commit funds beyond those available, even though this means that some projects cannot be pursued and others can proceed only as fast as funding permits. It actively pursues other sources of funding for activities that cannot be financed by grant. Nevertheless the future financial viability of the Museum is critically dependent on continued government grant. The funds of the Museum are adequate to support its future requirements only in the technical sense that commitments are not made beyond the resources available.

RESERVES POLICY

As part of the annual planning and budget setting process the Trustees review and approve the level of readily available reserves appropriate to the scale, complexity and risk profile of the Museum. The policy on reserves is reviewed by the Trustees on an annual basis.

Although GIA accounts for around 78% of its income, which provides limited exposure to liquidity risk, the remainder of operational costs must be financed by self-generated income, which is volatile. The risk is managed through the Museum's policy to ensure that the level of reserves provides a comfort level for shortfall in income and to underpin cashflow and budgetary risks particularly arising from capital expenditure projects.

Taking an overall view of the annual operational expenditure and level of comfort required, the Trustees consider that unrestricted general reserves of £200k should be maintained. Of this, £100k is deemed the minimum amount required to meet shortfalls in variable income with a further £100k against unforeseen expenditure.

Although the Museum's total reserves at 31 March 2006 are shown as £51.4 million on its balance sheet, all but £189k is tied up in restricted funds: buildings, galleries, plant, fixtures and fittings and the Royal Armouries Development Trust Fund. None of which can be used for other purposes.

PAYMENT OF CREDITORS

The Museum continues to review the efficiency of its operations and aims to comply with best practice wherever possible. The Royal Armouries adheres to the Government-wide standard on the payment of creditors, by aiming to settle all bills within 30 days or in accordance with the suppliers' terms of business. In 2005-06, the Royal Armouries paid approximately 90% (2004-05: 90%) of supplier invoices within the target of 30 days.

ROYAL ARMOURIES DEVELOPMENT TRUST

Registered Charity Number 803617

The Royal Armouries Development Trust is a charity connected to the Museum. It was established on 10 May 1990 to pursue such charitable purposes as the Trustees, with the consent of the Board of Trustees, think fitting. The Development Trust supports the development of the Royal Armouries at all its three sites. Income during 2005-06 was £28,222 (2004-05: £3,753). Expenditure amounted to £590 (2004-05: £85,559) increasing the reserves by £27,633. Overall net assets at 31 March 2006 were £142,974 (2004-05: £115,341). The accounts of the Royal Armouries Development Trust have been consolidated with the accounts of the Board of Trustees of the Royal Armouries.

Royal Armouries Development Trust accounts are audited by Volans, Leach and Schofield, Woodhouse Lane, Leeds.

Reference and Administration Details of the Charity, its Trustees and Advisers

The Royal Armouries was created under the National Heritage Act 1983.

Museums Addresses

Principal Address

Royal Armouries
Armouries Drive
Leeds
Yorkshire
LS10 1LT
Email: enquiries@armouries.org.uk
Web site: www.armouries.org.uk

Royal Armouries
Fort Nelson
Portsdown Road
Portsmouth
Hampshire
PO17 6AN

Royal Armouries
Tower of London
London
EC3N 4AB

Board of Trustees of Royal Armouries

The following persons were members of the Board of Trustees of the Armouries in 2005-06 and served on the committees shown:

Chairman	Date of Appointment	Expiry of Appointment
Ann Green FCMI FRSA	10.11.98	09.11.06
Members		
Major General Sir Simon Cooper GCVO	01.08.04	16.07.08
General Sir Roger Wheeler GCB CBE	01.08.01	tbc
Francis Carnwath CBE	26.04.00	25.04.07
Bob Morton FCA	22.01.03	21.01.07
Chris Oakley CBE	26.05.02	25.05.10
John Siddall MA(Oxon)	01.09.04	31.08.08
Patricia Langham BA MEd	04.11.04	03.11.08
Jon Hammond Booth	02.12.04	01.12.08
Marie Stevens	19.09.05	18.09.09
Professor Richard Holmes CBE TD JP	26.09.05	25.09.09

Trustee sub-committees

Sub- Committee	Chair	Members
Audit	Bob Morton	Ann Green, Francis Carnwath
Finance	Bob Morton	Ann Green, Francis Carnwath
Commercial	Ann Green	Bob Morton, Jon Hammond Booth, Marie Stevens
Development	John Siddall	Ann Green, Pat Langham, Richard Holmes
Remuneration	Ann Green	Bob Morton

Methods adopted for recruitment and appointment of new trustees

The process for appointing new Trustees is in accordance with the procedures defined by DCMS under which descriptions of the roles required would be advertised, interviews conducted and recommendations made to the DCMS for appointment by the Secretary of State.

Executive Committee

Paul Evans	Chief Executive
Peter Armstrong	Museum Director
Joan Jacobs	Administration Director
Jocelyn McConnachie to 31.01.06	Commercial Director
Claire Harder	Acting Head of Development

List of Royal Armouries Advisors

External Auditors

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Internal Auditors

KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW

Auditors Royal Armouries Development Trust

Volans, Leach & Schofield
10 Blenheim Terrace
Woodhouse Lane
Leeds
LS32 9HX

Bankers

NatWest plc
Bishopsgate Business Centre
London
EC2P 2AP

Solicitors

Blake Lapthorn Linnell
Harbour Court
Compass Road North Harbour
Portsmouth
Hampshire
PO6 4ST

Queen Anne's Chambers
28 Broadway
London SW1H 9JS

Statement as to Disclosure of Information to auditors

The Trustees who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Trustees and Directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

External auditors

Under schedule 1, paragraph 29(7) of the National Heritage Act 1983 the Comptroller and Auditor General is required to examine, certify and report on the statement of accounts.

Board approvals

The Board of Trustees of the Royal Armouries approved these accounts on

Chairman

Dated

Accounting Officer

Dated

Remuneration Report

Remuneration Committee

The membership of the Remuneration Committee is:

Ann Green (Chair)
Bob Morton

Policy on the Remuneration of Chief Executive and Directors

The Remuneration Committee reviews the salaries of the Chief Executive and Directors. At the beginning of each year the Chief Executive and Directors are set objectives based on the Museum's business plan. The Remuneration Committee on an annual basis assesses the performance of the Chief Executive and a pay award is made according to achievements against targets. The Chief Executive reviews the Directors performance and makes a recommendation to the Remuneration Committee on their salary levels. All pay depends on performance being delivered.

Policy on duration of contracts, notice periods and termination payments

The Chief Executive and Directors are permanent employees of the Royal Armouries Museum. Notice periods are between three and six months and all termination payments are in accordance with the Museum's contractual terms.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figure shown relates to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in

another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries. Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

	2006	2005
Paul Evans	£000's	£000's
Remuneration	87	78
Bonus	8	6
Employer's pension contribution	21	13
Cash equivalent transfer value at 31 March	78	46
Real increase in cash equivalent transfer value	19	12
Real increase in pension age 60	0-2.5	0-2.5
Real increase in lump sum at age 60	2.5-5	2.5-5

Chairman Dated

Accounting Officer Dated

STATEMENT OF THE TRUSTEES' AND THE CHIEF EXECUTIVE'S RESPONSIBILITIES

Under paragraph 29 of schedule 1 to the National Heritage Act 1983, the Board of Trustees of the Royal Armouries is 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 HM Treasury. The accounts are prepared to show a true and fair view of the Board's financial activities during the year and its financial position at the end of the year.

In preparing the 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 suitable accounting policies 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 Board will continue in operation.

The Accounting Officer of the Department for Culture, Media and Sport has designated the Chief Executive as the Accounting Officer for the Board. 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 Officers' Memorandum, issued by the Treasury and published in *Government Accounting*.

Chairman

Dated

Accounting Officer

Dated

STATEMENT ON INTERNAL CONTROL – THE ROYAL ARMOURIES, 2005-06

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

The Trustees, as a non-executive Board, are collectively responsible for the 'general management and control of the Museum including risk management. The Board has delegated the responsibility for monitoring risk to its Audit Committee, who, along with the Museum's internal auditors advises the Accounting Officer and the Board on the adequacy of audit arrangements, risk management and internal control. The Audit Committee has approved both the Risk Management Policy and the Risk Register, which it reviews twice a year.

The Museum has a three-year funding agreement with its Government sponsor body, the Department for Culture, Media and Sport, which includes targets in support of the Department's own Public Service Agreement and 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.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the 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 the principal risks to the achievement of the Museum's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

During 2005/06 the Museum Directors and senior managers, reviewed and assessed the major strategic risks on the register. All risks, including any new risks, were assessed and scored for impact and probability. The controls and their effectiveness were reviewed

and where appropriate actions plans put in place to introduce new controls and/or improve existing controls to ensure the risks were mitigated. A number of the major risks; care of the collection, failure to fulfill customer expectation, asset maintenance, gallery refurbishment, development of IT systems, all stem from pressure on financial resources. Other major risks include loss of reputation, knowledge management, brand image, impact of external disasters and failure to develop self-generated income or secure other non Grant-in-Aid income.

Risk evaluation informs our actions in managing these risks efficiently and effectively as we implement our plans to achieve the objectives over the coming years. Risk management is incorporated into the strategic planning process and the decision making process of the Museum.

A number of training sessions and workshops were held throughout the year to inform staff, give them a better understanding of the risk management process and help them with their responsibilities of continuous monitoring of risks within their departments.

The system of Internal Control has been in place in the Royal Armouries for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts and accords with Treasury guidance. The system is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability.

Key controls of the system include:

- A three-year Funding Agreement with the Department for Culture, Media and Sport (DCMS), with key performance targets reviewed half yearly;
- Comprehensive budgeting systems with an annual budget, which is approved by the Board of Trustees and incorporated into the operational plan;
- Regular reviews by the Board of monthly and annual reports which indicate progress against key performance indicators;
- Regular reports from the Internal Auditors who give an independent and objective opinion on the Museum's internal control systems, corporate governance and risk management to the Audit Committee;

- The Finance Committee and Commercial Committee review the financial and commercial management of the Museum every two months through reports and long term plans;
- New developments are approved and monitored by the Development Committee;
- Monthly meetings of the Museum's Executive team monitor and review results against key performance and risk indicators;
- Annual completion of Assurance Statement by senior managers to confirm their compliance with Royal Armouries' internal control standards
- Register of Interests for Trustees and senior staff.

As Accounting Officer, I have responsibility for reviewing the effectiveness of the controls. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the executive managers within the departments who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

The Museum used the services of KPMG to provide Internal Audit Services, operating to standards defined in the Government Internal Audit Standards. The annual audit plan is drawn up in conjunction with the Accounting Officer and approved by the Audit Committee. Internal Audit provides the Accounting Officer with reports on those systems identified in the annual internal audit plan and these are then presented to the Audit Committee. Such reports include the Internal Auditor's independent view on the adequacy and effectiveness of the Museum's system of internal control and progress against recommendations made in previous financial years. In 2005-06 the Internal Auditors reported on retail, events management, purchase ledger, Fort Nelson and management Information. Internal Audit also undertook a follow-up review of issues raised in prior years.

Each senior manager provides an annual assurance statement confirming that all financial transactions and liabilities have been recorded and notified; and also confirming that they will operate within the budget resources allocated for the forthcoming financial year.

The information I have received was sufficient to enable me to review the effectiveness of the Museum's system of internal control in accordance with the relevant recommendations of the Turnbull Committee.

I have been advised on the results of a review I commissioned by our internal auditors that the effectiveness of our system of internal control is adequate. I plan to incorporate any suggestions made by our internal auditors to ensure that there is continuous improvement to the system already in place. The weaknesses identified in ISA 260 for 2005-6 and the recommendations made have all been addressed and implemented.

The above arrangements have been in place throughout the financial year 2005-06 and I consider the Museum to be compliant with the required standards.

Paul Evans
Accounting Officer

Dated

On behalf of the Board of Trustees of the Royal Armouries we have reviewed and agreed the Statement on Internal Control.

Ann Green
Chairman of the Board of Trustees

Dated

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Board of Trustees of the Royal Armouries

I certify that I have audited the financial statements of the Royal Armouries for the year ended 31 March 2006 under the National Heritage Act 1983. These comprise the Summary Consolidated Income and Expenditure Account, the Consolidated Statement of Financial Activities, the Consolidated Balance Sheet, the Consolidated Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Board of Trustees, the Chief Executive, and auditor

The Board of Trustees, and the Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the National Heritage Act 1983 and directions made thereunder by the Secretary of State for Culture, Media, and Sport, and for ensuring the regularity of financial transactions funded by Parliamentary grant ("Grant in Aid"). These responsibilities are set out in the Statement of the Board of Trustees' and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Heritage Act 1983 and directions made thereunder by the Secretary of State for Culture, Media, and Sport. I also report whether in all material respects the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Royal Armouries has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 21-24 reflects the Royal Armouries' compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Trustees' and Director's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Royal Armouries' corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the other information in the Annual Report and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Board of Trustees and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Royal Armouries and the group'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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure, income and resources funded by Grant in Aid 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Heritage Act 1983 and directions made thereunder by the Secretary of State for Culture, Media, and Sport, of the state of affairs of the Royal Armouries and group as at 31 March 2006 and of the incoming resources and application of resources of the group for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Heritage Act 1983 and directions made thereunder by the Secretary of State for Culture, Media, and Sport; and
- in all material respects the expenditure, income and resources funded by Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Emphasis of Matter - Land Transactions

Without qualifying my opinion I draw attention to Note 21 to the financial statements. The Royal Armouries has recently obtained consent from the Secretary of State to enter into a number of land transactions that were originally made between 1999 and 2002. It is not currently possible to confirm when or if the parties to the original agreements will sign the new legal documentation that is required to allow the transactions to take place and no provision has been made in the accounts for failure to obtain an agreement. In forming my opinion I have taken into account the substance of the transactions described in the Note to the financial statements.

I have no other observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
Date 4 June 2007

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

**SUMMARY CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR
THE YEAR ENDED 31 MARCH 2006**

	2005-06	2004-05
	£000	£000
Total income of continuing operations	10791	8447
Operating expenditure	(10354)	(9580)
Total surplus/(deficit) for the year before notional costs and revaluations	437	(1133)
Capital projects income	(327)	(310)
Capital acquisition income	(131)	(220)
Acquisition of National Firearms Centre	(1535)	
Depreciation	1565	1598
Operating surplus/(deficit) on revenue	9	(65)

The capital projects income represents the element of Grant-In-Aid utilised for capital purposes. The sum of £327k (2004-05: £310k) has been designated by the Trustees for the purposes of capital projects.

The capital acquisition income represents the element of Grant-In-Aid utilised for acquisition purposes. The sum of £131k (2004-05: £220k) has been designated by the Trustees for the purposes of collection purchases.

Depreciation comprises restricted funds of £871k (2004-05: £797k) in respect of the Land and Buildings, and a sum, classified as designated funds, of £694k (2004-05: £801k) in respect of other fixed assets.

The notes on pages 32 to 43 form an integral part of these accounts.

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR
THE YEAR ENDED 31 MARCH 2006

	Notes	Unrestricted funds		Restricted funds	Total funds	Restated Total funds
		General	Designated		2005-06	2004-05
		£000	£000	£000	£000	£000
Incoming resources						
Incoming Resources from generated funds						
Voluntary Income						
Grant-In-Aid	2	6911	458		7369	6967
Grant DCMS/Wolfson				46	46	
Grant DCMS/DfES Strategic Commissioning				160	160	
Other voluntary income		28		85	113	198
Contributions to costs	3			100	100	100
Activities for generating funds						
Income from trading activities	12	787			787	858
Conservation Income		11			11	16
Investment income		10		3	13	22
Incoming resources from charitable activities						
Events Income		502			502	160
Educational Income		51			51	70
Other Operating Income		104			104	56
Other Incoming Resources						
Surrender of Lease				1535	1535	
Total incoming resources		8404	458	1929	10791	8447
Resources expended						
Costs of generating funds						
Costs of generating voluntary income	4	(177)			(177)	(92)
Fundraising trading: costs of goods and services	4	(875)	(22)	(27)	(924)	(876)
Charitable activities						
Care of the collection	4	(2252)	(172)	(291)	(2715)	(2569)
Education		(824)	(49)	(296)	(1169)	(1171)
Visitor Services	4	(4222)	(451)	(623)	(5296)	(4813)
Governance costs	4	(72)		(1)	(73)	(59)
Total resource expended before		(8422)	(694)	(1238)	(10354)	(9580)
Notional incoming/(outgoing) resources before notional costs		(18)	(236)	691	437	(1133)
Notional cost of capital	6	(7)	(248)	(1466)	(1721)	(1669)
Gain on revaluation of assets			57	1973	2030	2245
		(25)	(427)	1198	746	(557)
Reversal of notional costs		7	248	1466	1721	1669
Net incoming / (outgoing) resources surplus/(deficit)	7	(18)	(179)	2664	2467	1112
Fund balances at 1 April		207	7203	41539	48949	47837
Fund balances at 31 March		189	7024	44203	51416	48949

All activities are on an ongoing basis.

There are no recognised gains or losses in the current or preceding year, other than the net incoming/(outgoing) resources as disclosed in the Statement of Financial Activities.

The notes on pages 32 to 43 form an integral part of these accounts.

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

BALANCE SHEETS AS AT
31 MARCH 2006

	Notes	2005-06		Restated 2004-05	
		Group	Museum	Group	Museum
		£000	£000	£000	£000
Fixed Assets					
Tangible Assets	8	51084	51084	48626	48626
		<u>51084</u>	<u>51084</u>	<u>48626</u>	<u>48626</u>
Current Assets					
Stocks	9	148	148	146	146
Debtors	10	468	468	493	493
Cash at Bank and In Hand		271	128	254	138
		<u>887</u>	<u>744</u>	<u>893</u>	<u>777</u>
Creditors					
Amounts falling due within one year	11	(555)	(555)	(570)	(570)
		<u>332</u>	<u>189</u>	<u>323</u>	<u>207</u>
Net Current Assets					
		<u>51416</u>	<u>51273</u>	<u>48949</u>	<u>48833</u>
Total Assets less Current Liabilities					
		<u>51416</u>	<u>51273</u>	<u>48949</u>	<u>48833</u>
Represented by					
Income Funds					
Restricted Reserves	16	44203	44060	41539	41423
Unrestricted Reserves					
Designated funds	16	7024	7024	7203	7203
General	16	189	189	207	207
		<u>51416</u>	<u>51273</u>	<u>48949</u>	<u>48833</u>
Total Funds					

The notes on pages 32 to 43 form an integral part of these accounts.

Accounting Officer

Date

Chairman

Date

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

**CONSOLIDATED CASH FLOW STATEMENT FOR
THE YEAR ENDED 31 MARCH 2006**

	Notes	2005-06	2004-05
		£000	£000
Net cash inflow from operating activities	17	1997	408
Returns on investment and servicing of finance	17	13	22
Capital expenditure and financial investment	17	(1993)	(530)
Increase/(Decrease) in cash		<u>17</u>	<u>(100)</u>

The notes on pages 32 to 43 form an integral part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

1.1 Basis of accounting

These accounts have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets. The accounts comply with the Charities SORP 2005, applicable accounting standards, and the requirements of the Companies Act 1985 and HM Treasury's Financial Reporting Manual. The accounts have been prepared in accordance with the accounts direction given by the Secretary of State for Culture, Media and Sport, with the approval of the Treasury, a copy of which can be obtained from the Museum. The analysis of incoming resources and resources expended for 2005 year have been restated to comply with SORP 2005. In addition, reserves analysis has been restated as detailed in Note 16.

The consolidated financial statements incorporate those of the Royal Armouries Development Trust. All financial statements are made up to 31 March 2006.

1.2 Fundamental accounting concept

The future financial viability of the Museum is critically dependent upon continued government grant. The funds of the Museum are adequate to support its future requirements only in the technical sense that commitments are not made beyond the resources available.

The Trustees are satisfied, on the evidence available, that Grant-In-Aid the Secretary of State has made available, together with estimated events admission fees and other income in the period to 31 March 2007, is adequate to meet known and reasonably foreseeable circumstances likely to arise in that period. Should unforeseen costs and losses arise, the Royal Armouries aims to absorb these within the resources available to it, but may have to look to the Department for Culture, Media and Sport for further assistance in exceptional circumstances. The Trustees believe, therefore, that the accounts can be prepared on the basis of a going concern.

1.3 Incoming resources

Income from donations and grants, including capital grants, is generally included in incoming resources when these are receivable. Sponsorship and donation income is recognised as income when the conditions for its receipt have been met. Commercial income is recognised upon performance of services rendered in accordance with contractual terms.

1.4 Expenditure

Expenditure is classified under the principal categories of costs of generating funds, costs of charitable activities and governance costs, rather than the type of expense, in order to provide more useful information to the users of the accounts.

Costs of generating funds are those associated with generating voluntary income and the cost of trading activities, which includes the cost of goods sold and other associated costs.

Resources expended on charitable activities comprises all the resources incurred in undertaking its work to meet its charitable objectives. Such costs include those incurred on conserving and managing the collection, providing an educational and interpretation programme and all costs associated with customer service.

Governance costs include Trustee expenditure and internal and external audit costs.

Support costs, where possible, have been directly allocated to a activity cost category, or alternatively, apportioned on the basis of floor area occupied by an activity, or by the number of people employed within an activity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

1.5 Collection purchases

In accordance with the Financial Reporting Manual as issued by the Treasury, additions to the collection acquired since 1 April 2001 are capitalised and recognised in the Balance Sheet at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable and reliable. Such items are not depreciated or revalued as a matter of routine. The 'de-minimis' capitalisation limit for individual collection purchases is £2,500.

All Gifts In Kind are included as fixed assets at market value at the time of receipt except where they are below the de-minimis limit. The market value is determined by in-house experts.

On 1 September 2005, Royal Armouries assumed responsibility for the maintenance, care and operation of the former Pattern Room Collection, from the Ministry of Defence. The Collection consists of approximately 14,600 objects. These include small arms, light weapons and medium cannons. In addition the Small Arms Technical Information Centre was also transferred. As an existing collection, in accordance with our accounting policy for heritage assets, no value is included in these accounts.

1.6 Fund accounting

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 use of the designated funds is set out in the notes to the accounts.

Restricted funds are funds subject to specific restriction by the providers of the funds or the purposes of the appeal.

1.7 Tangible fixed assets

The total cost of the Leeds Museum was recognised on the Balance Sheet of the Royal Armouries with effect from the handover of financial responsibility for the Museum on 1 August 1999. Previously, only the costs incurred by the Royal Armouries were recognised. The building was valued at depreciated replacement cost in March 2004, and will be professionally revalued on an appropriate basis at least every five years, in line with Treasury Guidance and FRS 15.

Other tangible fixed assets other than the collection assets (see note 1.5) were professionally revalued as at 31 March 2006. Depreciation is provided on all tangible assets at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful life as follows:

Buildings	53 years
Plant & machinery	23 years
Fixtures, fittings & equipment	3 to 10 years

Tangible fixed assets are defined as assets costing £1,000 or more with a useful life of greater than 1 year. All fixed assets are revalued to current cost using either a range of appropriate price indices or professional revaluation. Where the net book value of a fixed asset is higher than its recoverable amount, it will be impaired and written down to its recoverable value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

1.8 Stock

Stock is valued at the lower of cost or net realisable value and comprises goods for resale.

1.9 Pensions

Present and past members of staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is a non contributory and unfunded scheme. Although the scheme is a defined benefit scheme, liability for payment of future benefits lies with the PCSPS. The Royal Armouries, and other bodies covered by PCSPS meet the cost of pension cover provided for staff they employ by payment of charges calculated on an accruing basis. There is a separate statement for the PCSPS as a whole. Contributions are included as expenses in the Statement of Financial Activities in the period to which they relate.

1.10 Operating leases

Rentals applicable to operating leases are charged to the Statement of Financial Activities on a straight line basis, over the lease term.

1.11 Notional costs

In accordance with Treasury guidance, notional cost of capital is charged in the Statement of Financial Activities in arriving at the net incoming / (outgoing) resources figure. This is reversed so that no provision is included on the Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Grant-in-Aid

Grant-in-Aid entitlement in 2005-06 was £7,369,000 (2004-05: £6,967,000). The entitlement has been credited to income during the year.

The money is available for running costs, capital improvements and collection purposes.

3. Contributions to costs

	2005-06 £000	2004-05 £000
Historic Royal Palaces Agency	<u>100</u>	<u>100</u>

4. Total resources expended

	Staff costs £000	Other direct costs £000	Depreciation £000	2005-06 £000	2004-05 £000
Cost of generating funds					
Cost of generating voluntary income	48	129		177	92
Fund raising: cost of goods and other costs	422	454	48	924	876
Charitable activities					
Care of the collection	1550	776	389	2715	2569
Education	603	456	110	1169	1171
Visitor Services	2222	2056	1018	5296	4813
Governance		73		73	59
	<u>4845</u>	<u>3944</u>	<u>1565</u>	<u>10354</u>	<u>9580</u>

Governance costs

	2005-06 £000	2004-05 £000
Trustee expenditure	26	19
Audit fees	47	40
	<u>73</u>	<u>59</u>

4a Staff Costs

	2005-06 £000	2004-05 £000
Salaries and wages	3773	3758
Agency staff	104	45
National Insurance Contributions	266	255
Superannuation	600	430
Early Retirement Costs	31	36
Redundancy Costs	71	-
	<u>4845</u>	<u>4524</u>

The average number of employees, analysed by function, was:

	2005-06	2004-05
Cost of generating voluntary funds	1	1
Fundraising: cost of goods sold and other	31	22
Care of the collection	49	49
Education	14	22
Visitor Services	100	98
	<u>195</u>	<u>192</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Total resources expended (continued)

Chief Executive

Details of the Chief Executive's remuneration are contained within the Remuneration report

Employees receiving remuneration over £60,000:

The number of employees, including Directors whose emoluments as defined for taxation purposes amounted to over £60,000 in the year were as follows

	2005/06	2004/05
£70,001 - £80,000		1
£80,001 - £90,000	1	

Pension Scheme

Under the terms of Schedule 1 of the National Heritage Act 1983, the Board of Trustees of the Royal Armouries provides pensions for staff, and employment with the Royal Armouries is included among the categories of employment to which a superannuation scheme under section 1 of the Superannuation Act applies. In accordance with the schedule, the Royal Armouries pays a monthly sum determined by the Treasury to meet its liabilities under the Principal Civil Service Pension Scheme (PCSPS) attributable to the payment of pensions in respect of employees who are or have been in the service of the Royal Armouries.

The PCSPS is an unfunded multi-employer defined benefit scheme, but the Royal Armouries is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, contributions of £593k (2004-05: £429k) were paid to the Paymaster General, the contribution rates varying from 16.2% to 24.6% according to salary bandings. The Royal Armouries also provides partnership schemes for a number of staff; contributions amounted to £7k in 2005-06 (2004-05: £1k).

4b Trustees

No member of the Board of Trustees of the Royal Armouries received any emoluments during the year. Nine Trustees were re-imbursed for their travel and subsistence expenses during the year, which amounted to £25,561 (2004-05 £19,010).

5. Collection objects

Of the £162k spent on collection purchases during the year £131k was capitalised and recognised in the balance sheet and £31k was charged to the Income and Expenditure account and to the SoFA.

In addition to the above, a number of objects were received by way of gift or bequest. None of the gifts were over the de minimus limit of £2,500 for being capitalised and recognised in the balance sheet. The value recognised in the balance sheet in 2005-06 was Nil (2004-05: £8,500)

As per Treasury requirements collection purchases were only valued from 1st April 2001. Total value of collection purchases from April 2001 is £945k.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Notional costs

Notional cost of capital is calculated as 3.5% of the average capital employed in the year less the value of donated assets.

7. Net Incoming/(Outgoing) Resources

	2005-06 £000	2004-05 £000
Net incoming resources is stated after charging:		
External auditor for audit work	22	20
Internal Auditor	24	20
Legal services	146	79
Traveling and subsistence costs	166	166

8. Fixed assets

	Land and Buildings	Plant and Machinery	Group and Museum Fixtures and Fittings and Equipment		Acquisitions for the collection	Donated Assets	Total
	£000	£000	£000	£000	£000	£000	£000
Cost							
As at 1st April 2005	42220	3775	4960	814	355		52124
Additions	1535		327	131			1993
Disposals			(423)				(423)
Revaluations	1973	36	(2620)				(611)
As at 31 March 2006	45728	3811	2244	945	355		53083
Depreciation							
As at 1 April 2005	797	164	2537				3498
Charge for the year	871	167	527				1565
Disposals			(423)				(423)
Revaluation			(2641)				(2641)
As at 31 March 2006	1668	331	0	0	0		1999
Net Book Value							
As at 31 March 2005	41423	3611	2423	814	355		48626
As at 31 March 2006	44060	3480	2244	945	355		51084
Charitable activities	42738	3480	2132	945	355		49650
Other activities	1322		112				1434
Total	<u>44060</u>	<u>3480</u>	<u>2244</u>	<u>945</u>	<u>355</u>		<u>51084</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

A full valuation of the building on the basis of depreciated replacement cost was carried out by Rushton International, asset valuers, as at 31 March 2004. In accordance with FRS 15 the plant and machinery elements were split out and are included as a separate category. The building is being depreciated over a 53-year period, plant and machinery over 23-year period. The values have been adjusted in 2006 using indices.

As a result of the surrender of the lease on the car park, 24,000 square feet of storage space was acquired to house part of the Royal Armouries collection. The storage space has been valued by Rushton International as at the 31 March 2006.

A full valuation on all other fixed assets was also carried out by Rushton International as 31 March 2006.

9. Stocks

	Group and Museum	
	2005-06	2004-05
	£000	£000
Stocks valued at cost	164	162
Less: provisions for publications and other slow moving stocks	(16)	(16)
	<u>148</u>	<u>146</u>

The provision for slow moving stocks relates to goods and publications where the net realisable value is considered to be lower than cost.

10. Debtors

	Group and Museum	
	2005-06	2004-05
	£000	£000
Trade debtors	14	8
Other debtors	207	224
VAT recoverable	97	129
Prepayments	152	135
Provision for bad debts	(2)	(3)
	<u>468</u>	<u>493</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Creditors: amounts falling due within one year

	Group and Museum	
	2005-06	2004-05
	£000	£000
Trade creditors	13	12
Income Tax and Social Security	87	88
Other creditors	222	274
Accruals	233	196
	555	570

12. Trading activities

	2005-06	2004-05
	£000	£000
Trading income	787	858
Cost of sales	(354)	(368)
Gross profit	433	490
Other costs	(317)	(285)
Net profit	116	205

Trading profit at the Museum's two venues were as follows:

	2005-06	2004-05
	Profit/(loss)	Profit/(loss)
	£000	£000
Leeds Shop	130	180
Fort Nelson Shop	4	4
Fort Nelson catering activities	(18)	21
	116	205

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Contingent Liabilities

There are no material contingent liabilities at 31 March 2006.

14. Capital Commitments

There are no material capital commitments at 31 March 2006.

15 Analysis of group net assets between funds

	Group			Total £000
	Unrestricted Funds		Restricted Funds	
	General £000	Designated £000	£000	
Funds balances as 31 March 2006 are represented by:				
Tangible fixed assets		7,024	44,060	51,084
Current assets	744		143	887
Current liabilities	(555)			(555)
Total net assets	189	7,024	44,203	51,416

	Museum			Total £000
	Unrestricted Funds		Restricted Funds	
	General £000	Designated £000	£000	
Funds balances as 31 March 2006 are represented by:				
Tangible fixed assets		7,024	44,060	51,084
Current assets	744			744
Current liabilities	(555)			(555)
Total net assets	189	7,024	44,060	51,273

16. Statement of funds

	As previously stated 1 April 2005 £000	Prior Year Adjustment £000	Restated 1 April 2005 £000	Group			31 March 2006 £000
				Income £000	Expenditure £000	Revaluation £000	
Unrestricted funds							
General funds	207		207	8,404	(8,422)		189
Designated funds	2,082	5,121	7,203	458	(694)	57	7,024
Total unrestricted funds	2,289	5,121	7,410	8,862	(9,116)	57	7,213
Restricted funds							
Land and Buildings							
Museum	46,660	(5,121)	41,539		(871)	1,973	42,641
National Firearms Centre				1,535			1,535
Sponsorship and Donations				88	(61)		27
GIA				206	(206)		
Contribution to costs				100	(100)		
Total restricted funds	46,660	(5,121)	41,539	1,929	(1,238)	1,973	44,203
Total funds	48,949		48,949	10,791	(10,354)	2,030	51,416

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Statement of funds (continued)

	Museum						31 March 2006
	As previously stated 1 April 2005 £000	Prior Year Adjustment £000	Restated 1 April 2005 £000	Income £000	Expenditure £000	Revaluation £000	
Unrestricted funds							
General funds	207	(1)	206	8,404	(8,421)		189
Designated funds	<u>2,082</u>	<u>5,121</u>	<u>7,203</u>	<u>458</u>	<u>(694)</u>	<u>57</u>	<u>7,024</u>
Total unrestricted funds	<u>2,289</u>	<u>5,120</u>	<u>7,409</u>	<u>8,862</u>	<u>(9,115)</u>	<u>57</u>	<u>7,213</u>
Restricted funds							
Land and Buildings							
Museum	46,544	(5,121)	41,423		(871)	1,973	42,525
National Firearms Centre				1,535			1,535
Sponsorship and Donations		1	1	60	(61)		
GIA				206	(206)		
Contribution to costs				100	(100)		
Total restricted funds	<u>46,544</u>	<u>(5,120)</u>	<u>41,424</u>	<u>1,901</u>	<u>(1,238)</u>	<u>1,973</u>	<u>44,060</u>
Total funds	<u>48,833</u>		<u>48,833</u>	<u>10,763</u>	<u>(10,353)</u>	<u>2,030</u>	<u>51,273</u>

The use of restricted funds is restricted to specific purposes by conditions imposed by the providers of the funds or the nature of appeal. The Leeds Museum Building, was funded by a combination of public and private sector finance, and those funds have been utilised wholly on the development of the Leeds Museum. In addition, the Royal Armouries has received other donations and contributions for specified purposes. Those funds have been or will be wholly utilised for their intended purpose.

Prior year figures have been restated in order to transfer some funds, previously accounted for as restricted, to designated funds. These fixed asset funds were not subject to restrictions but have been designated by the Board of Trustees. The restatement has had no effect on net incoming/(outgoing) resources or on total funds. The adjustment transfers old non land and building fixed assets into designated funds.

Designated funds are funds which the Board of Trustees of the Royal Armouries have designated as being allocated to finance capital expenditure other than that associated with the land and buildings. Restricted funds represent old land and buildings at net book value.

17. Cash flow information

a) Reconciliation of changes in resources to net inflow from operating activities

	Group and Museum	
	2005-06	2004-05
	£000	£000
Net incoming/ (outgoing) resources	437	(1,133)
Interest receivable	(13)	(22)
Depreciation	1,565	1,598
Donated assets		(9)
(Increase) / decrease in stocks	(2)	(5)
(Increase) / decrease in debtors	25	(146)
Increase / (decrease) in creditors	(15)	125
Net cash inflow from operating activities	<u>1,997</u>	<u>408</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Cash flow information (continued)

b) Analysis of cash flows

	Group and Museum	
	2005-06 £000	2004-05 £000
Returns on investment and servicing of finance		
Interest received	13	22
Net cash inflow for returns on investment and servicing of finance	<u>13</u>	<u>22</u>
Capital expenditure and financial investment		
Tangible fixed assets	(1993)	(530)
Net cash outflow from capital expenditure and financial investment	<u>(1993)</u>	<u>(530)</u>

c) Reconciliation of net cash flow to movement in net funds

	Group and Museum	
	2005-06 £000	2004-05 £000
Increase/(decrease) in cash in the period	17	(100)
Increase/(decrease) in net funds in the period	<u>17</u>	<u>(100)</u>
Net funds at 1 April	254	354
Net funds at 31 March	<u>271</u>	<u>254</u>

d) Analysis of net funds

	Group and Museum		
	1 April 2005 £000	Cash flow in period £000	31 March 2006 £000
Cash	254	17	271
Net funds	<u>254</u>	<u>17</u>	<u>271</u>

18. Related party transactions

The Royal Armouries is a non-departmental public body whose parent department is the Department for Culture, Media and Sport. During the year the Royal Armouries had a number of transactions in the normal course of business and at full arms length with the Department, which is regarded as a related party.

The Royal Armouries also has a number of financial transactions with the following parties; Royal Armouries (International) plc, Historic Royal Palaces, Yorkshire Forward, Frazier Historical Arms Museum and the Royal Armouries Development Trust.

There were no material related party transactions with the Trustees, key managerial staff, or other related parties during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Financial instruments

The Royal Armouries has no borrowings and relies primarily on department grants for its cash requirements. It is therefore not exposed to liquidity risks. It also has no material cash deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest risk or currency risk.

20. Financial commitments

As at 31 March 2006 the Royal Armouries had annual commitments under a non-cancellable operating lease for land as follows:

	2005-06	2004-05
	£000	£000
Lease expiring in 2995	229	225

From 2006/7 to 2015/16 the annual commitment will be increased to £336.5k in line with the original lease agreement.

21. Land Transactions

In 1992 the Secretary of State gave consent for the Royal Armouries to enter into a number of land transactions as required under section 18(6) of the National Heritage Act 1983 and also approved the redevelopment of the Clarence Dock Area. Since then the Royal Armouries has entered into a number of land transactions in good faith, believing that they had received the necessary formal consent. However, no formal consent was received and therefore all of these transactions would be void without the formal National Heritage Act approval.

In 1999 Royal Armouries and Royal Armouries (International) plc entered into a Memorandum Agreement which was intended to restructure the land holding arrangement between them. The arrangements were intended to return control over the museum part of Clarence Dock to Royal Armouries and limit Royal Armouries (International's) involvement with the car park. Subsequently Royal Armouries, Royal Armouries (International) plc, Clarence Dock Developments Limited and British Waterways Board undertook a number of transactions which amounted to the acquisition and disposal of various leases involving the car park and the development of land surrounding the museum. Business operations by all parties have continued throughout the period as if the National Heritage Act consent to the leases had been issued and the various leases and sub leases had been completed and registered at HM Land Registry and all parties have considered themselves bound by the terms of those documents.

In December 2006 the Secretary of State wrote to the Armouries giving retrospective consent for these transactions to be made. This required all parties to the original land transactions to enter into a memorandum of agreement confirming that the parties would continue to consider themselves bound by the original documents and agreement.

However, at the present time the process of authorising new agreements is incomplete as it must be executed by all of the original parties, although the form of the agreement has been settled between the Royal Armouries and the DCMS. There is no firm date for the completion of the memorandum of agreement.

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