

Presented pursuant to section 3(3) of the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003

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# Royal Air Force Museum Account 2004-2005

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 30 JANUARY 2006

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scrutinises public spending  
on behalf of Parliament.

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Sir John Bourn, is an Officer of the  
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## Administrative Information

### **Address of the Charity**

Royal Air Force Museum  
Grahame Park Way  
Hendon  
London  
NW9 5LL

### **Registered Charity Number**

244708

### Names and Addresses of other relevant organisations

#### **Auditor**

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

#### **Accountants**

Hillier Hopkins LLP  
Chartered Accountants  
St Martin's House  
31-35 Clarendon Road  
Watford  
Herts  
WD17 1JF

#### **Solicitors**

Mishcon De Reya  
21 Southampton Row  
London  
WC1B 5HS

#### **Bankers**

Barclays Bank Plc  
Eagle Point  
1 Capability Green  
Luton  
LU1 3US

#### **Internal Auditors**

Daly, Hogget & Co  
5-11 Mortimer Street  
London  
W1T 3HS

# Foreword

## **Vision and mission**

The Museum's Vision is

### ***To be the World's best Air Force Museum***

The Museum's Mission

### ***The Museum exists to educate and inform present and future generations about***

- the history and traditions of the Royal Air Force;
- air power and defence;
- aviation links with the Royal Air Force;

and to promote the Royal Air Force.

## **Strategic objectives**

These objectives, in close partnership with the Royal Air Force, (the Museum's sponsor) serve to support the core curatorial and education work of the Museum under a secure financial framework, whilst seeking to expand and develop the Museum in the future.

- 1 To collect objects relating to the history and traditions of the Royal Air Force, the history of air power and their links with aviation;
- 2 to preserve and manage the collections;
- 3 to provide access to the collections;
- 4 to educate users about the past, present and future of the Royal Air Force, air power and their links with aviation;
- 5 to promote the Museum;
- 6 to support the Royal Air Force Strategic and Management Plans;
- 7 to maximise plural funding;
- 8 to use resources efficiently;
- 9 to increase the number of users of the Museum; and
- 10 to develop the Museum.

## **Review of the year**

Following the opening of the landmark *Milestones of Flight* building and the Grahame White Factory on 17 December 2003, the Museum's London site has experienced further growth in visitor numbers during the financial year. These increases continued to add strain to the limited resources – financial and human – of the Museum and during the year the Museum's sponsor department provided an additional grant to enable the recruitment of further safety and security staff. This prevented the permanent closure of buildings on the London site. Unfortunately the financial situation has not remained stable because the Museum's grant funding is to be reduced significantly in the next two financial years.

Last year it was reported that a submission for capital funds to develop the Cosford site would be made. It is with great pleasure that we can report that the Museum was successful in these funding applications and a total of £11.634m was allocated from six sources and the construction contract was signed on 5 November 2004.

## Structure, governance and management

### Trustees

The Royal Air Force Museum is governed by a Board of Trustees. The Museum is a registered charity within the meaning of the Charities Act 1993, which places on Trustees the responsibility for the effective and economical management of the Trust and the stewardship and care of the collections.

Trustees are appointed to the Board in accordance with the guidance laid down by the Office of the Commissioner for Public Appointments. This procedure includes the obtaining of nominations from a variety of sources, including advertising and liaison with the Public Appointments Unit, the vetting of nominations by a panel normally comprising the Chairman of Trustees, a senior member of the sponsoring Department (MOD) and an independent member. Prospective Trustees are normally interviewed by a panel representing the Trustees and an independent member sponsored by the MOD. The sponsoring department within the MOD, (Personnel and Training Command), is closely involved in all stages of the selection process and Trustees are appointed by the Secretary of State for Defence. Trustees are normally appointed for a period of three years and, at the discretion of the Board, and in consultation with the MOD sponsor, may be reappointed for a second term.

The following people served as the Museum's Trustees during 2004-2005, or who have been appointed subsequently.

#### Chairman

Air Chief Marshal Sir Richard Johns GCB CBE LVO FRAeS (re-appointed 6 December 2003)	Non-Executive Director Royal Air Force Museum Enterprises Ltd
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#### Trustees

Ms Carole Blackshaw BA FRAeS MBAC The Rt Hon Baroness Blatch CBE (Deceased 31 May 2005)	Chairman Remuneration Committee
Viscount Chelsea (appointed 15 December 2004)	Member Fund Raising Committee
Lord Clarke of Hampstead CBE KSG (re-appointed 12 September 2004)	Member Remuneration Committee
Air Vice-Marshal David Crwys-Williams CB FCIPD FIMgt RAF (retired) (re-appointed 12 September 2004)	Chairman Finance Committee
Mr Michael H Dale CBE (appointed 6 November 2002)	President RAFM American Foundation
Air Chief Marshall Sir John Day KCB OBE appointed 29 September 2004	Chairman Fundraising Committee
Mr L Antony Edwards BSc MBA CEng FRAeS (re-appointed 25 August 2003)	Non-Executive Director Royal Air Force Museum Enterprises Ltd
Lord Evans of Watford (appointed 6 November 2002)	Member Audit Committee
Sir Richard Evans CBE (retired 12 September 2004)	Chairman Audit Committee
Sir Gerald Hosker KCB QC (re-appointed 6 July 2004)	Member Remuneration Committee
Sir Roger Jackling KCB CBE (appointed 6 November 2002)	Member Finance Committee
Ms Jane Middleton MSc FCCA MRAeS (Appointed 29 September 2004)	Chairman Education and Research Committee
His Excellency Air Marshal ID Macfadyen CB OBE FRAeS RAF (retired) (retired 3 May 2005)	Member Finance Committee
Sir Peter Rigby DL D.Univ (Appointed 24 August 2005)	Co-opted Member Development Committee
Mr Malcolm White OBE FRAeS (Appointed 29 September 2005)	Member Fundraising Committee
Mr David Young (retired 3 May 2005)	Chairman Development Committee
Mr Brendan Connor (Appointed 24 August 2005)	

*Co-opted member of Audit Committee*

Sir John Blelloch KCB (Retired 19 April 2002)

*Director General and Accounting Officer*

Dr Michael A Fopp MA FMA FRAeS

Managing Director Royal Air Force Museum  
Enterprises Limited  
Director RAF Museum American Foundation

The Trustees have established a number of sub-committees for specific purposes and for the efficient method of conducting business. These sub-committees are

- Audit;
- Finance;
- Development;
- Fund Raising;
- Education and Research; and
- Remuneration.

All these committees derive their responsibilities from the directions given to them by the Board, government guidelines and the best practices of management within the heritage sector. The terms of reference of each of these committees have been approved by the full board and, where practical, Trustees do not sit on more than two sub-committees.

The recommendations of sub-committees and decisions by the full board are made with the knowledge and information supplied by the Director General (who is also the Accounting Officer) to whom day-to-day responsibility is delegated. Matters of policy and strategy are always subject to approval by the Trustees. The Trustees have established two subsidiary companies, the shares of which are held by Trustees, although the decisions taken by these companies are their responsibility alone. The Board of the Royal Air Force Museum Enterprises Ltd, whose activities include non-charitable business, includes a number of impartial and independent non-executive directors.

The Structure of the Museum can be shown as



The Trustees introduced a Risk Assessment programme several years ago and a comprehensive Risk Register exists. This document, which is reviewed periodically, is used as the basis of the annual Internal Audit carried out by Daly Hoggett; this year the internal audit focused on stock control in the retail outlets and energy consumption. A number of minor recommendations were implemented on the former and a working group is considering energy consumption and re-cycling across the Museum's three sites. The next review will include an examination of the resilience of the Museum's senior management team.

## Senior Management Team

The following are the members of the Senior Management Team during the year

Dr Michael A Fopp MA FMA FRAeS	Director General and Accounting Officer
Stuart Garman FCIS	Director of Finance and Museum Secretary
Simon Greenish BSc	Director – Collections Division (until 2 August 2005)
Keith Ifould CBE AFC FRAeS MIL	Director – Business Development Division
John Kitchen MA Mst	Director – Operations Division
Mrs Joanna Ruddock BA (Hons) PGDip (Museum Studies)	Director – Access and Learning Development Division (Resigned 31 May 2005)
Peter Elliott BSc MA RMSA MCLIP	Senior Keeper – Department of Research and Information Services
Mrs Sue Fitzsimmons Cert. Ed. DPSE	Head of Access and Learning Development (Appointed 1 August 2005)
John Francis MSc FRAeS FInstAM FInstTT	General Manager, Cosford

## Objectives and activities; achievements and performance

### Education

During the early part of the year, a new Division entitled Access & Learning Development, was created from the education department within the Collections Division and a new Divisional Director was appointed. The Museum continued to offer its well established history and science programmes for schools and a total of 24,795 pupils from 441 schools visited London and Cosford during the year. In addition a number of educational activities were arranged during school holidays at both sites.

The team continues to give talks to organisations and it is planned to extend this activity to full Outreach and Life-long Learning programmes in due course.

A number of initiatives to directly support the RAF Management Plans were put in place. These were to inform the general public of the RAF, to raise the profile of the Service and the Museum, support the RAF's Youth strategy and to take part in the RAF's Heritage Awareness initiatives.

### Access and exhibitions

The museum has commenced its largest ever development at Cosford (£11.634 million) which will provide covered accommodation for most of the remaining Trustee-owned aircraft currently stored in the open and therefore, inevitably, deteriorating. The theme of the new building will be the Cold War and involves support and loan of artefacts from other museums. This new development will probably generate an extra 50,000 visitors per year and is planned to open in early 2007. The curatorial staff of the Museum are currently undertaking the extensive research and caption writing needed.

For the first time the Museum took part in the national Archive Awareness Campaign. An exhibition *Transatlantic Tales*, marking the 85th anniversary of the first non-stop transatlantic flight, featured original documents and memorabilia from the Museum's collections. This was also the first exhibition developed in association with the new Access & Learning Development Division.

A temporary exhibition to mark the 40th Anniversary of the Red Arrows was constructed and opened with the Red Arrows Team in attendance. The Department of Research & Information Services also mounted temporary exhibitions using facsimiles, and focused on the RAF's part in D-Day and the Arnhem operation. Other minor exhibitions looked at RAF ground trades, the role of the South East Asia Command during the Second World War and the wide range of ethnic minorities represented within the wartime Royal Air Force.



## Visitor numbers

The total number of visitors during 2004-2005 was 456,654, compared with 442,595 for 2003-2004, an increase of 3%.

In addition the Museum's website received 1,243,045 visits during the year, in comparison with 898,602 for the previous year; an increase of 38%.

## Information and public services

During the year members of the Curatorial Division answered some 7,000 enquiries from a variety of individuals and organisations in the UK and overseas, a slight increase on the previous year's total. 572 researchers visited the Reading Room at the London site, just less than the previous year's total. The photographic sales service remains suspended due to lack of resources.

In the autumn of 2004 a joint venture with the National Army Museum (NAM) marking the 90th anniversary of the start of the First World War was held at the RAF Museum and the NAM.

## Collection and management of heritage assets

### *Notable acquisitions*

Jindivik unmanned target aircraft;

Part of the wing of a Dornier Do 215 shot down during the Battle of Britain;

Wessex HC2 Helicopter

Extremely detailed large-scale model of a Spitfire Mark I;

Central Band ceremonial uniform, Pattern 1975;

Medals and papers of Air Commodore John Searby;

Papers of Group Captain FCV 'Daddy' Laws, a pioneer of aerial photography;

Camera gun film of No. 144 Squadron (Beaufighters) on anti-shipping operations, Norway 1944;

The effects of Marshal of the Royal Air Force Lord Douglas of Kirtleside, previously on loan to the Museum, were donated by Lady Douglas.

On 31 March 2005 a total of 197,348 records were on the electronic database, representing an estimated 61% of the accessioned collection and an increase of 8.2% over the year. Transfer of the Aircraft & Exhibits outward loan information to the computerised Collections Management System was completed, as were the inventories of three further major collections.

Work has begun on the development of a web browser to enable users to search our database and find out more about the collection online.

The London site Emergency Plan was implemented, including the training of Incident Officers and other staff.

The centralised tracking of temperature and relative humidity (RH) levels in both storage and public display areas of the Museum's sites was implemented.

The RAF Museum is a registered national museum with the Museum's, Libraries and Archives Council (MLA). The MLA has introduced a revised set of minimum standards for museums and galleries in the United Kingdom (accreditation), a scheme which is endorsed by a range of organisations including the Department of Culture, Media and Sport, local government associations, and the Heritage Lottery Fund. The main benefit of the scheme is public recognition that a museum meets approved standards in certain key areas of museum management, collection care and public services.

The RAF Museum, will be invited in mid-2006 to apply for accreditation within the new scheme.

## Research

Negotiations were concluded with the noted racing and test pilot Alex Henshaw, who will donate his papers, trophies and memorabilia to the museum; he will also provide funding for the employment of a curator to catalogue the collection and carry out research. Recruitment of the curator, on a 5-year fixed term contract, has begun in order that work can start in June 2005.

## Financial review

During the year, the Ministry of Defence granted a new 35 year lease on the Museum site at Cosford in the name of the RAF Museum Investment Company Ltd. This wholly owned subsidiary company was established to hold the real property assets of Trustees as a convenient administrative measure. The costs of the construction contract for the new Cosford development is shown in the accounts as additions to leasehold property/assets under construction (page 26) with a corresponding entry in Debtors (page 27).

## Statement of Financial Activities

*Income:* The Museum received £7.027m of Grant in Aid (2004: £6.790m) of which £500,000 represented half of the MOD's support for the Cosford Development. Other income included donations and legacies and part of the support funds from the other five funding partners for Cosford. The income generated by the trading company on non-charitable activities rose to £1.874m (2004: £1.688m). Total incoming resources amounted to £14,737,138 (2004: £13,052,085) (Note 15).

*Resources Expended:* The total of Resources expended amounted to £9,598,441 (2004: £8,457,585) (Note 15). The majority of costs, including the costs of salaries, are in respect of charitable activities.

After adjustment for notional charges and other recognised gains and losses totalling £2,857,249 (2004: £6,478,871), the net movement in funds for the year was an increase of £6,756,666 (2004: £9,988,342).

## Balance sheet

The bank balances at the year end included funds received in previous years as a result of successful fund raising initiatives; these funds in particular are being held in reserve for the Cosford development. Other funds include sums not expended at the year end in respect of that same contract.

Towards the end of the year, the Museum was informed that the spending review undertaken by the Ministry of Defence would effect the funding of our sponsor department and in turn could affect the Museum. Various savings measures were proposed and discussed and a cut to the annual GIA of £400,000 p.a. was reluctantly accepted by Trustees at their meeting in February 2005. This cut will be imposed in the two financial years 2005-2006 and 2006-2007 during which time further discussions will take place with the sponsor to secure the restoration grant in the third year.

This measure will seriously affect the operation of the Museum in many areas, particularly the temporary closures of buildings at London and the reduction of budgets across the whole Museum and the Collections Division in particular. Trustees have tasked management to ensure that this temporary hiatus will only impact upon the London operation, thus ensuring the continuance and outputs of the Cosford development.

In October 2004, the Museum presented its Strategic Financial Review to the Air Force Board Standing Committee, a document that demonstrated the need for significantly increased funding to fulfil the Museum's curatorial and educational objectives.

## Income and costs of generating funds

The Museum seeks to attract funds from a variety of sources. During the year the efforts of Trustees and their Fund-raising Committee were focussed on consolidation and planning for the next major exercise associated with the Cosford Development.

### **Trading Company**

Any non-charitable activities are undertaken by RAF Museum Enterprises Ltd, a wholly owned subsidiary of the Trustees. The company produced income of £1,873,564 and the associated costs of trading were £1,714,454. During the year, a number of staff and other resources were utilised in furtherance of those activities resulting in a cross charge amounting to £252,989 being paid to the Museum. A donation of £199,702 in respect of covenanted profit will be made to the Museum during the next financial year.

### **Donations**

During the year, a total of £103,500 was received by way of general donations to the work of the Museum. These were given by members of the public, legacies and amounts provided by companies associated with the aerospace industry. The Museum also received a number of heritage assets, transferred from the Ministry of Defence, valued at £813,000.

### **Grants**

The Cosford development commenced in November 2004 and construction started very soon thereafter. The HLF and Advantage West Midlands, which administered other funds, provided £4,682,035 during the year as their proportion towards this project.

### **Friends of the RAF Museum and Cosford Air Show**

Sums of £12,000 and £53,000 respectively were received from these two independent but supporting activities.

### **RAF Museum American Foundation**

The American Foundation was incorporated in the United States of America on the 2 January 2002, and was granted exempt status from Federal income tax under section 501(a) of the Internal Revenue Codes on 31 May 2002. This is a separate and independent organisation that was established to raise funds to support the work of the RAF Museum.

## Reserves Policy

The Trustees continually monitor the level of the Charity's reserves, defined for the purposes of this policy as the amounts shown as 'Investments' and 'Net Current Assets' in the accounts of the Charity, and which are attributable to unrestricted funds. As at 31 March 2005, the level of the Museum's reserves stood at £2,735,315 (2004: £2,463,926). The amount and term of the investment of the reserves are based on the Trustees' opinion of the immediate and future needs of the Museum by identifying the requirements for continuing operations and setting aside sufficient funds to enable the medium and long-term development and expansion plans.

## Payment of creditors

The Museum's policy, in accordance with the Government-wide standard on the payment of creditors, is to settle all undisputed bills within 30 days or in accordance with the supplier's terms of business. The Museum's actual payment performance during the year was an average of 29 days (2004: 33 days).

## Investment policy

The Trustees continually monitor levels of the Charity's funds expendable at their discretion. Available funds are currently invested in long term deposits in the bank to maximise the level of return but with minimum risk.

The amounts and terms of the investment are based on the Trustees' opinion of the immediate and future needs of the Museum by analysing the requirements of continuing operations and setting aside sufficient sums to enable medium to long term development, expansion and maintenance not funded by MOD.

## Future plans

Because, regrettably, of financial restraints, the museum will not be able to mount any exhibitions from within its own resources in the next two years; only externally funded exhibits will be possible. In this respect Boeing has donated to the RAF Museum American Foundation funds for a significant helicopter display at the Royal Air Force Museum London. This is currently under design development and it is expected to be made available to the public before the end of 2005.

The MOD, the Veterans Agency and the MLA have initiated a Veterans Awareness Week to mark the 60th anniversary of the end of the Second World War. The Museum was invited to take part and has developed an exhibition based on a 'Spitfire Scramble' as part of the 'Living Museum' planned for St James' Park in July 2005.

The Museum is developing an activity - *Operation Aviation* - based on a simulated mission to deliver emergency aid and is intended to develop teamwork and planning skills. This will be used initially by air cadets, but will be capable of use by other youth groups, children and schools.

During the year, the Trustees hope to produce, with the aid of the Charity Commission, a scheme of Amendment to its present Trust Deed to incorporate modern and best practices from within the sector.

The Trustees recognise that to enhance the success of the Cosford development, additional funds will be required. They have set themselves ambitious plans and targets to raise £1m over the next two years.

In response to the government's initiative of raising plural funding via its Wider Markets Objectives, the Museum and the MOD have developed a range of ground breaking licensing activities that should produce funds for the MOD and the Museum. These activities will be undertaken by the charity's trading company, Royal Air Force Museum Enterprises Ltd.

## Policy on the employment of disabled persons

The Museum is committed to managing staff solely on the basis of actual performance in the job and considering new applicants wholly on the basis of ability to do the job and is seeking ways to encourage applications from people with disabilities. The Museum has an Equal Opportunities Policy and continues to monitor staff and applicants' disability status, as well as their age, ethnic background and marital status.

## Consultation with employees

Senior management communicates with their staff through periodic briefings, departmental monthly reviews, union representatives, a Health and Safety committee as well as departmental meetings, annual personal performance reviews, annual personal career counselling meetings, informal meetings and internal memoranda.

## Auditors

The accounts are audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003 and there was no non-audit work carried out during the year.

*Dr Michael A Fopp*  
Director General  
Royal Air Force Museum  
19 September 2005

*ACM Sir Richard Johns*  
on behalf of the Board of Trustees

19 September 2005

## Statement of Board of Trustees' and Director General's responsibilities

Under Section 30(3) of the National Heritage Act 1983 and law applicable to charities in England and Wales, the Board of Trustees is required to prepare financial statements for each financial year which give a true and fair view of the Royal Air Force Museum's financial activities and of its financial position at the end of the year.

In preparing financial statements giving a true and fair view, the Board of Trustees is required to

- a observe any accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- b make judgements and estimates that are reasonable and prudent;
- c state whether applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- d prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the charity will continue in operation.

Under law applicable to charities in England and Wales, the Board of Trustees is responsible for keeping proper accounting records which disclose with reasonable accuracy the financial position of the charity and which enable the Board to ensure that the financial statements comply with applicable law. The Board is also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Permanent Secretary of the Ministry of Defence has appointed the senior full time official, the Director General, as the Accounting Officer for the Royal Air Force Museum. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of expenditure from Grant-in-Aid provided by Parliament and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting'.

## Statement on Internal Control

### Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Royal Air Force Museum's 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 in Government Accounting, and for ensuring compliance with the requirements of the Royal Air Force Museum's Financial Memorandum as agreed with the MOD.

On behalf of the board of Trustees of the Royal Air Force Museum, I am responsible for confirming that a sound system of internal control is maintained within the Museum and that the major risks to which the Museum is exposed, as identified by the Trustees, have been reviewed and systems have been established to mitigate those risks.

### 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 Royal Air Force 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 Royal Air Force Museum for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts in accordance with Treasury guidance.

### Capacity to handle risk

The Audit Committee of the Board of Trustees reviews the Risk Register annually and reports its findings to the full Board. Members of the Audit Committee are aware of their responsibilities set out in the Audit Committee Handbook published in October 2003.

### The risk and control framework

The Museum has established a risk management strategy that is owned by the Board of Trustees through its Audit Committee. This Risk Register documents, defines terms, and sets out the perceived risks and the attitude of the Museum to each one. Individual risks are assigned to an identified person or post holder and show actions and review dates.

### 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 audit function (described below), and the executive managers within the Museum 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. 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, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Internal audit is contracted out to Daly, Hoggett and Co, Chartered Accountants, who operate to standards defined in the Government Internal Audit Manual. The work of the internal auditors is informed by an analysis of the risks to which the Museum is exposed, and annual audit plans are based on this analysis. We approve a programme of work and are provided with a report on internal audit activity at the Museum annually. This report includes an independent opinion on the adequacy and effectiveness of the Museum's internal controls.

In addition the Board of Trustees receives regular reports from its Finance and Audit Committees. It is also able to question the Director General, other senior staff and its reporting accountants at meetings of the Board. By these actions the Board is satisfied that the systems of internal controls in place at the Museum are effective.

In our view, the information received was sufficient to enable us to review and confirm the effectiveness of the Royal Air Force Museum's system of internal control in accordance with Treasury guidance and recommendations.

*ACM Sir Richard Johns GCB CBE LVO FRAeS*  
On behalf of the Board of Trustees  
19 September 2005

*Dr Michael A Fopp MA FMA FRAeS*  
Accounting Officer  
19 September 2005

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

I have audited the financial statements on pages 16 to 33 under the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003. These financial statements have been prepared in the form directed by the Secretary of State for Defence and approved by the Treasury; they have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 20 to 22.

## Respective responsibilities of the Board of Trustees, the Director General and the Auditor

As described on page 11, the Board of Trustees and the Director General, as Accounting Officer, are responsible for the preparation of financial statements and for ensuring the regularity of financial transactions funded by Parliamentary grant (Grant-in-Aid). The Board of Trustees and the Director General are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute, and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Charities Act 1993 and directions made by the Secretary of State for Defence thereunder, and 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 if, in my opinion, the other contents of the Foreword are not consistent with the financial statements, if the 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 12 and 13 reflects the Museum's compliance with Treasury's guidance on the 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 I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Museum's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with 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 in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Trustees and the Director General in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Royal Air Force Museum's 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 are free from material misstatement, whether caused by error or by fraud or other irregularity 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.



## Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Royal Air Force Museum and the group as at 31 March 2005 and of the incoming resources and application of resources of the group for the year then ended and have been properly prepared in accordance with the Charities Act 1993, and the directions made by the Secretary of State for Defence; and
- 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 have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

25 January 2006

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

## Consolidated Statement of Financial Activities for the year ended 31 March 2005

	Notes	Restricted funds			Total funds 2005	Total funds 2004
		Unrestricted funds 2005	Grant in Aid funds 2005	Other funds 2005		
		£	£	£	£	£
<b>Incoming resources</b>						
Grant in Aid (Operating)		0	6,417,895	0	<b>6,417,895</b>	6,483,510
Grant in Aid (Purchase of exhibits)		0	109,000	0	<b>109,000</b>	109,000
Grant in Aid (Development)		0	500,000	0	<b>500,000</b>	198,000
Other grants and donations	3a	917,098	0	0	<b>917,098</b>	3,424,142
Special events		64,196	0	0	<b>64,196</b>	1,339
Other income		91,695	0	3,197,753	<b>3,289,448</b>	171,133
HLF grant	3b	0	0	1,484,282	<b>1,484,282</b>	924,801
<i>Activities for generating funds</i>						
Commercial trading operations	4b	1,873,564	0	0	<b>1,873,564</b>	1,688,711
Investment income and interest		74,968	6,687	0	<b>81,655</b>	51,449
<b>Total incoming resources</b>		<b>3,021,521</b>	<b>7,033,582</b>	<b>4,682,035</b>	<b>14,737,138</b>	13,052,085
<i>Less cost of generating funds</i>						
Commercial trading operations	4b	1,714,454	0	0	<b>1,714,454</b>	1,555,105
Fund raising and publicity	16	94,186	333,932	0	<b>428,118</b>	421,285
Total cost of generating funds		<b>1,808,640</b>	<b>333,932</b>	<b>0</b>	<b>2,142,572</b>	1,976,390
<b>Net incoming resources available for charity application</b>		<b>1,212,881</b>	<b>6,699,650</b>	<b>4,682,035</b>	<b>12,594,566</b>	11,075,695
<b>Resources expended</b>						
<i>Charitable expenditure</i>						
Costs of activities in furtherance of charity's objectives						
Purchase of exhibits		0	4,399	0	<b>4,399</b>	19,097
Direct charity costs	16	884,959	5,014,769	0	<b>5,899,728</b>	5,528,520
Depreciation	6b	0	1,374,038	0	<b>1,374,038</b>	744,472
Loss on revaluation		0	0	0	<b>0</b>	1,657
<i>Management and administration of the charity</i>						
Management and administration	16	90,629	87,075	0	<b>177,704</b>	187,449
Notional cost of capital		0	1,239,280	0	<b>1,239,280</b>	1,085,029
<b>Total resources expended</b>		<b>975,588</b>	<b>7,719,561</b>	<b>0</b>	<b>8,695,149</b>	7,566,224
Net outgoing resources before reversal of notional costs		237,293	(1,019,911)	4,682,035	<b>3,899,417</b>	3,509,471
Reversal of notional cost of capital		0	1,239,280	0	<b>1,239,280</b>	1,085,029
<b>Net (outgoing)/incoming resources for the year</b>		<b>237,293</b>	<b>219,369</b>	<b>4,682,035</b>	<b>5,138,697</b>	4,594,500

## Consolidated Statement of Financial Activities for the year ended 31 March 2005 *continued*

	Notes	Unrestricted funds	Restricted funds Grant in Aid funds	Other funds	<b>Total funds</b>	Total funds
		2005	2005	2005	<b>2005</b>	2004
		£	£	£	£	£
Gains and losses on revaluations of fixed assets for the charity's own use	6b	0	1,618,247	0	<b>1,618,247</b>	5,402,120
Gains and losses on revaluations and disposals of investment assets	9	(275)	0	0	<b>(275)</b>	(8,278)
<b>Net movement in funds</b>		<u>237,018</u>	<u>1,837,616</u>	<u>4,682,035</u>	<b><u>6,756,669</u></b>	<u>9,988,342</u>
Funds brought forward at 1 April 2004		<u>2,526,996</u>	<u>34,489,192</u>	<u>6,379,843</u>	<b><u>43,396,031</u></b>	<u>33,407,689</u>
<b>Funds carried forward at 31 March 2005</b>		<u><u>2,764,014</u></u>	<u><u>36,326,808</u></u>	<u><u>11,061,878</u></u>	<b><u><u>50,152,700</u></u></b>	<u><u>43,396,031</u></u>

All of the Group's activities are classed as continuing. All recognised gains and losses are included above.

## Consolidated Balance Sheet as at 31 March 2005

	Notes	Group 2005 £	Group 2004 £	Charity 2005 £	Charity 2004 £
<b>Fixed assets</b>					
Tangible assets	6	<b>46,953,887</b>	41,703,097	<b>44,501,507</b>	41,491,170
Investments	4a	<b>0</b>	0	<b>100,002</b>	100,002
		<b>46,953,887</b>	41,703,097	<b>44,601,509</b>	41,591,172
<b>Current assets</b>					
Stocks	7	<b>121,510</b>	134,620	<b>0</b>	0
Debtors	8	<b>3,453,294</b>	857,801	<b>5,878,260</b>	945,086
Investments	9	<b>2,469</b>	2,751	<b>2,469</b>	2,751
Cash at bank	10	<b>2,230,383</b>	1,924,257	<b>1,975,627</b>	1,712,210
		<b>5,807,656</b>	2,919,429	<b>7,856,356</b>	2,660,047
<b>Creditors: amounts falling due within one year</b>	11	<b>(2,544,166)</b>	(1,135,134)	<b>(2,291,856)</b>	(908,426)
<b>Net current assets</b>		<b>3,263,490</b>	1,784,295	<b>5,564,500</b>	1,751,621
Total assets less current liabilities		<b>50,217,377</b>	43,487,392	<b>50,166,009</b>	43,342,793
<b>Creditors: amounts falling due after more than one year</b>	12	<b>(64,677)</b>	(91,361)	<b>(42,008)</b>	(9,832)
		<b>50,152,700</b>	43,396,031	<b>50,124,001</b>	43,332,961
<b>Reserves</b>					
	15, 17				
Unrestricted funds		<b>2,764,014</b>	2,526,996	<b>2,735,315</b>	2,463,926
Grant in Aid operating account		<b>35,657,358</b>	33,931,030	<b>35,657,358</b>	33,931,030
Grant in Aid exhibits reserve		<b>669,450</b>	558,162	<b>669,450</b>	558,162
Other restricted funds		<b>11,061,878</b>	6,379,843	<b>11,061,878</b>	6,379,843
		<b>50,152,700</b>	43,396,031	<b>50,124,001</b>	43,332,961

Approved by the Board of Trustees on 19 September 2005 and signed on its behalf by

*Sir Richard Johns*  
Chairman

*Dr MA Fopp*  
Director General

## Consolidated Cash Flow Statement for the year ended 31 March 2005

### Reconciliation of net incoming resources to net cash flow from operating activities

	Unrestricted funds 2005 £	Grant in Aid funds 2005 £	Other funds 2005 £	<b>Total funds 2005 £</b>	Total funds 2004 £
Net incoming resources	237,293	219,369	4,682,035	<b>5,138,697</b>	4,594,500
Interest receivable	(74,911)	(6,687)	0	<b>(81,598)</b>	(51,449)
Interest payable	11,858	0	0	<b>11,858</b>	10,977
Dividends received	(57)	0	0	<b>(57)</b>	0
Depreciation of tangible assets	76,533	1,374,038	0	<b>1,450,571</b>	820,711
Loss on revaluation of tangible fixed assets	0	0	0	<b>0</b>	1,657
(Profit)/loss on disposal of assets	0	0	0	<b>0</b>	(11,893)
(Increase)/decrease in stocks	13,110	0	0	<b>13,110</b>	(41,923)
(Increase)/decrease in debtors	(121,223)	(365,808)	(2,108,462)	<b>(2,595,493)</b>	121,173
(Decrease)/increase in creditors	21,353	1,373,043	152,512	<b>1,546,908</b>	(112,611)
<b>Net cash flow from operating activities</b>	<b>163,956</b>	<b>2,593,955</b>	<b>2,726,085</b>	<b>5,483,996</b>	<b>5,331,142</b>

### Cash flow statement

Net cash flow from operating activities	163,956	2,593,955	2,726,085	<b>5,483,996</b>	5,331,142
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### Returns on investments and servicing of finance

Bank interest received	74,911	6,687	0	<b>81,598</b>	51,449
Finance charges paid	(11,858)	0	0	<b>(11,858)</b>	(10,977)
Dividends received	57	0	0	<b>57</b>	0

### Capital expenditure

Purchase of tangible fixed assets	(11,949)	(2,863,359)	(2,139,025)	<b>(5,014,333)</b>	(5,312,053)
Proceeds from disposal of tangible fixed assets	0	0	0	<b>0</b>	12,700

### Management of liquid resources

Purchase of current asset investments	(14)	0	0	<b>(14)</b>	(2,215)
Proceeds from disposal of current asset investments	21	0	0	<b>21</b>	2,732

### Financing

Capital element of finance lease rentals	(70,200)	0	0	<b>(70,200)</b>	(48,531)
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<b>(Decrease)/increase in cash in the period</b>	<b>144,924</b>	<b>(262,717)</b>	<b>587,060</b>	<b>469,267</b>	<b>(24,247)</b>
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The cash flow statement should be read together with note 13, which reconciles the net cash flow to the movement in net funds, and note 14, which analyses the changes in net funds.

# Notes to the Financial Statements 31 March 2005

## 1 Accounting policies

### *Basis of accounting*

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention as modified by the revaluation of fixed assets.

The financial statements comply with the Statement of Recommended Practice: Accounting and Reporting by Charities (SORP 2000) and with the Accounts Direction issued by HM Treasury (pages 34 to 35). The comparative figures comply with SORP 2000.

### *Basis of consolidation*

Consolidated financial statements have been prepared in respect of the charity and its wholly owned subsidiaries, Royal Air Force Museum Enterprises Ltd and The Royal Air Force Museum Investments Limited. The Consolidated Statement of Financial Activities includes the results of Royal Air Force Museum Enterprises Ltd on a line by line basis. A separate Statement of Financial Activities for the charity itself is not presented as the charity has taken advantage of the exemptions afforded by paragraph 304 of SORP 2000. The Consolidated Balance Sheet includes the net assets of Royal Air Force Museum Enterprises Ltd and The Royal Air Force Museum Investments Limited on a line by line basis.

The financial statements of Royal Air Force Museum Enterprises Ltd used in consolidation are those for the year to 31 March 2005.

The Royal Air Force Museum Investments Limited did not trade during the period.

### *Recognition of incoming resources*

Grants are credited to incoming resources on the earlier date of when they are received or when they are receivable, unless they relate to a specified future period, in which case they are deferred. Voluntary income and donations are accounted for as they are received. Earned income is accounted for as it is receivable. Donations in kind are recognised at their fair value, with an equivalent charge made to resources expended.

### *Resources expended*

Resources expended are included in the statement of financial activities on an accruals basis, inclusive of any irrecoverable VAT.

Fundraising expenditure comprises costs incurred in inducing individuals and organisations to contribute financially to the Museum's work. This includes advertising costs and the costs of staging special events.

Where costs cannot be directly attributed to particular headings they have been allocated to activities on a basis consistent with use of the resources.

### *Commercial trading activities*

Income from commercial activities is included in the period in which the group is entitled to receipt.

### *Notional costs*

In accordance with Treasury guidelines, a notional cost of capital, calculated at 3.5% on the average Grant-in-Aid funds during the year, is charged in arriving at Total Resources Expended. The charge is reversed in arriving at the Net Movement in Funds.

The Museum is fully insured via commercial providers and so does not charge notional insurance.

*Restricted and unrestricted funds*

Restricted funds are to be used for specified purposes as laid down by the donor. Expenditure which meets these criteria is identified to the fund, together with a fair allocation of overhead costs. Unrestricted funds are donations or other incoming resources received or generated for the charity's general purposes.

*Tangible fixed assets*

The charity's tangible fixed assets are capitalised at historic cost on acquisition, and revalued annually using indices calculated by the Ministry of Defence. Depreciation is provided at rates calculated to write off the value of each asset over its expected useful life, as follows

Freehold buildings	over 30 to 50 years
Leasehold property	over the lease term
Fixtures, fittings and equipment	3 to 5 years straight line
Plant and machinery	5 years straight line
Motor vehicles	4 years straight line
Donated Assets and additions to the Collection	Nil

Assets in the course of construction are not depreciated or revalued until brought into use.

*Exhibition costs and collection assets*

Long term exhibition equipment is capitalised as a fixed asset. Temporary exhibition costs are written off as resources expended in the year they are incurred.

In accordance with Statement of Recommended Practice (SORP) 2000, collection assets acquired after 1 April 2001 with a cost in excess of £500 have been capitalised. These assets are not revalued or depreciated. Collection assets acquired before 1 April 2001 have not been capitalised because reliable cost information is not readily available.

*Investments*

Investments held as fixed assets are stated at cost less provision for permanent diminution in value. Those held as current assets are stated at their market value.

Dividends are brought into account in the Statement of Financial Activities when received.

*Leasing*

Assets held under finance leases, where the lease terms give rights approximating to ownership, are capitalised with an equivalent liability recognised under creditors due within one and after one year as appropriate. Rentals payable under operating leases are charged to resources expended as they are incurred.

*Stock*

Stock is valued at the lower of cost and net realisable value. Specific provision is made for obsolete and slow moving items.

*Pensions*

Pensions benefits for 54 members of staff are provided through the Civil Service pensions arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium, and Classic Plus). Under the new arrangements, new entrants after 1 October 2002 were not able to join the existing PCSPS, which has been renamed 'Classic' and has become a closed scheme. Existing members of the PCSPS were given the option of remaining within 'Classic'; electing to transfer to 'Premium', the new defined benefits scheme; or choosing 'Classic Plus', whereby they transferred to 'Premium' but only in respect of service after 1 October 2002.

**(a) Classic Scheme**

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

**(b) Premium Scheme**

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80th of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8th the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

**(c) Classic Plus Scheme**

This is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

Pensions payable under Classic, Premium, and Classic Plus are increased in line with the Retail Prices Index.

The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependants' benefits. The RAF Museum recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future pension benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the RAF Museum recognises the contributions payable for the year.

The Museum has made arrangements with Legal and General to provide benefits to employees not covered through the Civil Service pension arrangements. Under this scheme the employee may choose their level of contribution into a stakeholders pension product; but the employer is not obliged and is not currently contributing any particular sum, although the Museum would like to do so if sufficient funds were available. Members may retire at any time between the ages of 50 and 75 and use the accumulated funds to purchase a pension. Members may also choose to take up to 25% as a lump sum.

**2 Taxation**

All of the charity's income is applied for charitable purposes and therefore the charity is exempt from Corporation Tax. The Corporation Tax liability of the trading subsidiary for the year ended 31 March 2005 was £Nil (2004: £Nil).



**3a Other grants and donations**

	Unrestricted funds 2005 £	Grant in Aid Operating funds 2005 £	Restricted funds 2005 £	<b>Total funds 2005 £</b>	Total funds 2004 £
Bomber Command Association	0	0	0	<b>0</b>	10,000
Society of Friends of the RAF Museum	12,000	0	0	<b>12,000</b>	12,000
Other	905,098	0	0	<b>905,098</b>	3,402,142
	<u>917,098</u>	<u>0</u>	<u>0</u>	<b><u>917,098</u></b>	<u>3,424,142</u>

**3b HLF grants for Cosford development**

	<b>2005 £</b>	2004 £
Other grants and donations	<b>1,484,282</b>	924,801
	<b><u>1,484,282</u></b>	<u>924,801</u>

**4a Investment in subsidiary undertakings**

The investment of £100,002 (2004: £100,002) of which £100,000 represents the charity's interest in 100% of the issued share capital of Royal Air Force Museum Enterprises Ltd which is incorporated in England and Wales and operates souvenir shops and other trading activities at Hendon and Cosford. The company's aggregate capital and reserves were as follows

	<b>2005 £</b>	2004 £
<b>The assets and liabilities of the subsidiary were</b>		
Fixed assets	<b>151,481</b>	211,927
Current assets	<b>564,842</b>	414,020
Creditors: amounts falling due within one year	<b>(564,955)</b>	(381,348)
Creditors: amounts falling due after more than one year	<b>(22,669)</b>	(81,529)
	<b><u>128,699</u></b>	<u>163,070</u>
	<b>2005</b>	2004
At 1 April 2004	<b>163,070</b>	155,945
Profit/(loss) retained in subsidiary	<b>(34,371)</b>	7,125
<b>At 31 March 2005</b>	<b><u>128,699</u></b>	<u>163,070</u>

A summary of the company's trading results is shown overleaf. Audited accounts will be filed with the Registrar of Companies.

The £2 represents the charity's interest on 100% of the issued share capital of The Royal Air Force Investments Limited, which is incorporated in England and Wales and holds the real property assets of the charity for administrative purposes.

**4b Income from trading company**

The Consolidated Statement of Financial Activities includes the profit of the trading subsidiary, as follows

**Royal Air Force Museum Enterprises Ltd**

	2005 £	2004 £
Turnover	<b>1,873,564</b>	1,688,711
Cost of sales and administrative expenses	<b>(1,706,084)</b>	(1,547,704)
	<b>167,480</b>	141,007
Interest receivable	<b>6,221</b>	3,616
Interest paid	<b>(8,370)</b>	(7,401)
<b>Net profit</b>	<b>165,331</b>	137,222
Charitable contribution under Deed of Covenant	<b>(199,702)</b>	(130,097)
<b>Surplus/(deficit) in subsidiary</b>	<b>(34,371)</b>	7,125

**5 Staff costs and numbers**

	Grant in Aid				
	Unrestricted funds 2005 £	Operating funds 2005 £	Restricted funds 2005 £	<b>Total funds 2005 £</b>	Total funds 2004 £
Salaries and wages	541,172	2,740,075	0	<b>3,281,247</b>	2,929,141
Temporary agency staff	91,897	0	0	<b>91,897</b>	162,495
Social security costs	183,350	125,577	0	<b>308,927</b>	273,461
Pension costs	0	190,377	0	<b>190,377</b>	180,286
	<u>816,419</u>	<u>3,056,029</u>	<u>0</u>	<b><u>3,872,448</u></b>	<u>3,545,383</u>

The above costs exclude the trading subsidiary.

**Notes**

- a 'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.
- b The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the RAF Museum is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2004-2005, employers' contributions of £190,377 were payable to the PCSPS (2003-2004: £180,286) at one of four rates in the range of 12 to 18.5% of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

No Trustees received any remuneration. The Chairman received £873 in reimbursed expenses during the year (2003-2004: two Trustees received £1,630).

The number of employees, excluding the Director General, whose remuneration was over £50,000 per annum (including benefits but excluding pension contributions) was as follows

Employees with remuneration in the range	<b>2005 Number</b>	2004 Number
£50,000 to £59,999	<b>3</b>	5
£60,000 to £69,999	<b>1</b>	0
£70,000 to £79,999	<b>1</b>	0

Dr Michael A Fopp, MA, FMA, FRAeS

Age	<b>57</b>	56
Salary (including performance bonus)	<b>£89,036</b>	£76,224
Taxable benefits (for the benefit of a company car received from the trading subsidiary)	<b>£9,062</b>	£9,958
Real increase in pension at 60 (in £2,500 bands)	<b>0-£2,500</b>	0-£2,500
Total accrued pension at 31 March 2005 (in £5,000 bands)	<b>£15,000 –</b>	£10,000 –
	<b>£20,000</b>	£15,000
CETV at the year-end	<b>£474,000</b>	£424,000
Real increase in CETV	<b>£21,000</b>	

The average number of monthly staff by division was as follows

	<b>2005 Number</b>	2004 Number
Collections	<b>47</b>	53
Access and Learning Development	<b>14</b>	0
Group Business Development	<b>5</b>	9
Operations	<b>94</b>	84
Finance	<b>6</b>	6
Other	<b>3</b>	3
	<b><u>169</u></b>	<u>155</u>

During the course of the year, a new Division was created entitled Access & Learning Development. The original staff forming this new Division were known as the Education Department and were part of the Curatorial, now renamed Collections Division. The Finance Division were originally included within the Operations Division.

**6a Tangible fixed assets - Group**

	Freehold property	Short leasehold property	Fixtures, fittings and equipment	Plant, machinery and vehicles	Assets in the course of construction	Purchase of exhibits	<b>Total</b>
	£	£	£	£	£	£	£
<b>Cost or valuation</b>							
At 1 April 2004	37,000,000	2,258,699	2,056,799	368,187	84,978	728,610	<b>42,497,273</b>
Additions	208,009	119,591	197,872	22,334	3,549,319	985,991	<b>5,083,116</b>
Disposals	0	0	(166,321)	(5,752)	0	0	<b>(172,073)</b>
Revaluations	1,514,865	87,446	23,778	1,088	0	0	<b>1,627,177</b>
<b>At 31 March 2005</b>	<b>38,722,874</b>	<b>2,465,736</b>	<b>2,112,128</b>	<b>385,857</b>	<b>3,634,297</b>	<b>1,714,601</b>	<b>49,035,493</b>
<b>Depreciation</b>							
At 1 April 2004	0	93,128	529,466	171,582	0	0	<b>794,176</b>
Charged in the year	880,631	70,562	441,535	57,843	0	0	<b>1,450,571</b>
Disposals	0	0	(166,321)	(5,752)	0	0	<b>(172,073)</b>
Revaluations	0	1,145	8,974	(1,189)	0	0	<b>8,930</b>
<b>At 31 March 2005</b>	<b>880,631</b>	<b>164,835</b>	<b>813,654</b>	<b>222,484</b>	<b>0</b>	<b>0</b>	<b>2,081,604</b>
<b>Net book values</b>							
<b>At 31 March 2005</b>	<b>37,842,243</b>	<b>2,300,901</b>	<b>1,298,474</b>	<b>163,373</b>	<b>3,634,297</b>	<b>1,714,601</b>	<b>46,953,889</b>
At 31 March 2004	37,000,000	2,165,571	1,527,333	196,605	84,978	728,610	41,703,097

**6b Tangible fixed assets - Charity**

	Freehold property	Short leasehold property	Fixtures, fittings and equipment	Plant, machinery and vehicles	Assets in the course of construction	Purchase of exhibits	<b>Total</b>
	£	£	£	£	£	£	£
<b>Cost or valuation</b>							
At 1 April 2004	37,000,000	2,258,699	1,732,438	70,573	84,978	728,610	<b>41,875,298</b>
Additions	208,009	119,591	181,786	22,334	3,549,319	985,991	<b>5,067,030</b>
Disposals	0	(2,465,736)	(166,321)	(5,752)	0	0	<b>(2,637,809)</b>
Revaluations	1,514,865	87,446	23,778	1,088	0	0	<b>1,627,177</b>
<b>At 31 March 2005</b>	<b>38,722,874</b>	<b>0</b>	<b>1,771,681</b>	<b>88,243</b>	<b>3,634,297</b>	<b>1,714,601</b>	<b>45,931,696</b>
<b>Depreciation</b>							
At 1 April 2004	0	93,128	268,304	22,696	0	0	<b>384,128</b>
Charged in the year	880,631	70,562	405,003	17,843	0	0	<b>1,374,039</b>
Disposals	0	(164,835)	(166,321)	(5,752)	0	0	<b>(336,908)</b>
Revaluations	0	1,145	8,974	(1,189)	0	0	<b>(8,930)</b>
<b>At 31 March 2005</b>	<b>880,631</b>	<b>0</b>	<b>515,960</b>	<b>33,598</b>	<b>0</b>	<b>0</b>	<b>1,430,189</b>
<b>Net book values</b>							
<b>At 31 March 2005</b>	<b>37,842,243</b>	<b>0</b>	<b>1,255,721</b>	<b>54,645</b>	<b>3,634,297</b>	<b>1,714,601</b>	<b>44,501,507</b>
At 31 March 2004	37,000,000	2,165,571	1,464,134	47,877	84,978	728,610	41,491,170

Group tangible fixed assets at 31 March 2005 include the tangible fixed assets of Royal Air Force Museum Enterprises Ltd, with a net book value of £151,481 (2004: £211,927). While the Museum is required to follow HM Treasury's guidance and therefore revalues its tangible fixed assets annually, the trading company is not subject to Treasury guidance and does not revalue its fixed assets. Additional depreciation is provided in respect of the revaluation and this is charged to Statement of Financial Activity.

The Museum's freehold property was professionally revalued as at 31 March 2004. The revaluation was carried out by Gerald Eve, Chartered Surveyors and Property Consultants, in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual. Freehold property, which comprises the RAF Museum site, Hendon, was valued on the basis of depreciation replacement cost.

The title deeds to the Museum's freehold property are vested in the names of former Trustees who are now deceased. As a charitable trust, the Museum is obliged to transfer property into the names of continuing Trustees whenever a named Trustees' appointment comes to an end. The Trustees' intention is to transfer the title to the freehold property to RAF Investments Limited, which would normally be achieved through execution by the named Trustees. The present situation prevents this and the Museum is working with its lawyers to resolve this state of affairs.

On the 16 March 2005, the ownership of the leasehold property at Cosford, was transferred from the Charity, to a subsidiary company, The Royal Air Force Investments Limited.

Group fixtures, fittings and equipment include equipment with a net book value of £156,963 (2004: £139,206) held by the group under finance leases. The depreciation charge relating to finance leased equipment was £56,797 (2004: £51,729). Group plant and machinery includes motor vehicles with a net book value of £30,304 (2004: £42,543) held by the group under finance leases. The depreciation charge relating to finance leased motor vehicles was £12,239 (2004: £1,529).

Charity fixtures, fittings and equipment include equipment with a net book value of £72,287 (2004: £11,408) held by the charity under finance leases. The depreciation charge relating to finance leased equipment was £17,562 (2004: £11,408).

## 7 Stocks

	<b>Group 2005</b>	Group 2004	<b>Charity 2005</b>	Charity 2004
	£	£	£	£
Goods for resale	<b>121,510</b>	134,620	<b>0</b>	0

## 8 Debtors

	<b>Group 2005</b>	Group 2004	<b>Charity 2005</b>	Charity 2004
	£	£	£	£
Trade debtors	<b>197,849</b>	116,775	<b>23,182</b>	65,651
Amounts due from subsidiary undertaking	<b>0</b>	0	<b>2,413,840</b>	24,541
Other debtors	<b>467,018</b>	137,047	<b>467,018</b>	136,027
Prepayments and accrued income	<b>2,788,427</b>	603,979	<b>2,774,518</b>	588,770
Charitable Deed of Covenant	<b>0</b>	0	<b>199,702</b>	130,097
	<b>3,453,294</b>	857,801	<b>5,878,260</b>	945,086

**9 Investments - Group and Charity**

	<b>2005</b>	2004
	£	£
<b>Quoted investments</b>		
Market value on 1 April 2004	<b>2,751</b>	11,546
Additions	<b>14</b>	2,215
Disposal of investments	<b>(21)</b>	(2,732)
Realised loss on disposal	<b>0</b>	(8,800)
Net unrealised investment gains/(losses)	<b>(275)</b>	522
Market value at 31 March 2005	<b>2,469</b>	2,751
Historical cost at 31 March 2005	<b>2,229</b>	2,229

**10 Cash at bank and in hand**

	<b>Group</b>	Group	<b>Charity</b>	Charity
	<b>2005</b>	2004	<b>2005</b>	2004
	£	£	£	£
Unrestricted funds	<b>1,437,561</b>	1,292,637	<b>1,182,805</b>	1,080,590
Grant-in-Aid funds	<b>205,762</b>	631,620	<b>205,762</b>	631,620
Restricted fund - Cosford redevelopment	<b>587,060</b>	0	<b>587,060</b>	0
	<b>2,230,383</b>	1,924,257	<b>1,975,627</b>	1,712,210

**11 Creditors: amounts falling due within one year**

	<b>Group</b>	Group	<b>Charity</b>	Charity
	<b>2005</b>	2004	<b>2005</b>	2004
	£	£	£	£
Bank loans and overdrafts	<b>23,319</b>	186,460	<b>23,319</b>	186,460
Obligations under finance leases	<b>90,750</b>	65,488	<b>31,890</b>	10,874
Trade creditors	<b>1,958,110</b>	398,656	<b>1,880,668</b>	322,453
Taxation and social security	<b>69,665</b>	77,861	<b>58,977</b>	69,552
Other creditors	<b>29,322</b>	25,549	<b>977</b>	3,800
Accruals and deferred income	<b>373,000</b>	381,120	<b>296,025</b>	315,287
	<b>2,544,166</b>	1,135,134	<b>2,291,856</b>	908,426

Obligations under finance leases are secured on the underlying assets.

**12 Creditors: amounts falling due after more than one year**

	<b>Group</b>	Group	<b>Charity</b>	Charity
	<b>2005</b>	2004	<b>2005</b>	2004
	£	£	£	£
Obligation under finance leases	<b>64,677</b>	91,361	<b>42,008</b>	9,832
	<b>64,677</b>	91,361	<b>42,008</b>	9,832

**13 Reconciliation of net cash flow to movement in net funds**

	Restricted funds			<b>Total funds</b> £
	Unrestricted funds £	Grant in Aid funds £	Other funds £	
(Decrease)/increase in cash in period	144,924	(262,717)	587,060	<b>469,267</b>
Cash outflow from decrease in financing	70,200	0	0	<b>70,200</b>
Cash inflow from sale of liquid resources	(7)	0	0	<b>(7)</b>
Change in net funds resulting from cash flow	215,117	(262,717)	587,060	<b>539,460</b>
Increase in financing in the period	(68,778)	0	0	<b>(68,778)</b>
Change in market value of liquid resources	(275)	0	0	<b>(275)</b>
	<u>146,064</u>	<u>(262,717)</u>	<u>587,060</u>	<b><u>470,407</u></b>
Net funds at 1 April 2004	<u>952,079</u>	<u>631,620</u>	<u>0</u>	<b><u>1,583,699</u></b>
<b>Net funds at 31 March 2005</b>	<u><b>1,098,143</b></u>	<u><b>368,903</b></u>	<u><b>587,060</b></u>	<b><u><b>2,054,106</b></u></b>

**14 Analysis of net funds**

	1 April 2004 £	Cash flow £	Other changes £	<b>31 March 2005 £</b>
Cash at bank and in hand	1,924,257	306,126	0	<b>2,230,383</b>
Overdrafts	(186,460)	163,141	0	<b>(23,319)</b>
Obligations under finance leases within one year	(65,488)	70,200	(95,462)	<b>(90,750)</b>
Obligations under finance leases after one year	(91,361)	0	26,684	<b>(64,677)</b>
Current asset investments	<u>2,751</u>	<u>(7)</u>	<u>(275)</u>	<b><u>2,469</u></b>
	<u>1,583,699</u>	<u>539,460</u>	<u>(69,053)</u>	<b><u>2,054,106</u></b>

**15 Movement of funds**

	Unrestricted funds 2005	Grant in Aid Operating funds 2005	Purchase grant funds 2005	Other restricted funds 2005	<b>Total funds 2005</b>	Total funds 2004
	£	£	£	£	£	£
<b>Incoming resources</b>						
Grant in Aid	0	6,917,895	109,000	0	<b>7,026,895</b>	6,790,510
Other grants and donations	917,098	0	0	0	<b>917,098</b>	3,424,142
Admissions	0	0	0	0	<b>0</b>	0
Special events	64,196	0	0	0	<b>64,196</b>	1,339
Public telephones	418	0	0	0	<b>418</b>	393
Interest on deposits	74,911	0	6,687	0	<b>81,598</b>	51,449
Visual arts	1,533	0	0	0	<b>1,533</b>	4,684
Other income	89,744	0	0	3,197,753	<b>3,287,497</b>	166,056
ERDF and Lottery Funds	0	0	0	1,484,282	<b>1,484,282</b>	924,801
Dividends received	57	0	0	0	<b>57</b>	0
Commercial trading operations	1,873,564	0	0	0	<b>1,873,564</b>	1,688,711
<b>Total incoming resources</b>	<b>3,021,521</b>	<b>6,917,895</b>	<b>115,687</b>	<b>4,682,035</b>	<b>14,737,138</b>	<b>13,052,085</b>
<b>Resources expended</b>						
Staff costs (notes 5 and 16)	816,419	3,056,029	0	0	<b>3,872,448</b>	3,545,383
Purchase of exhibits	0	0	4,399	0	<b>4,399</b>	19,097
Other operating costs (note 16)	253,355	2,379,747	0	0	<b>2,633,102</b>	2,591,871
Depreciation	0	1,374,038	0	0	<b>1,374,038</b>	744,472
Loss on revaluation of fixed assets	0	0	0	0	<b>0</b>	1,657
Commercial trading operation	1,714,454	0	0	0	<b>1,714,454</b>	1,555,105
<b>Total resources expended</b>	<b>2,784,228</b>	<b>6,809,814</b>	<b>4,399</b>	<b>0</b>	<b>9,598,441</b>	<b>8,457,585</b>
<b>Net (outgoing)/incoming resources for the year</b>	<b>237,293</b>	<b>108,081</b>	<b>111,288</b>	<b>4,682,035</b>	<b>5,138,697</b>	<b>4,594,500</b>
Gains and losses on revaluations of fixed assets	0	1,618,247	0	0	<b>1,618,247</b>	5,402,120
Gains and losses on revaluations and disposals of investments	(275)	0	0	0	<b>(275)</b>	(8,278)
<b>Net movement in funds for the year</b>	<b>237,018</b>	<b>1,726,328</b>	<b>111,288</b>	<b>4,682,035</b>	<b>6,756,669</b>	<b>9,988,342</b>
Funds brought forward at 1 April 2004	2,526,996	33,931,030	558,162	6,379,843	43,396,031	33,407,689
<b>Funds carried forward at 31 March 2005</b>	<b>2,764,014</b>	<b>35,657,358</b>	<b>669,450</b>	<b>11,061,878</b>	<b>50,152,700</b>	<b>43,396,031</b>



**16 Other operating costs**

	Management and administration 2005 £	Direct charity costs 2005 £	Fundraising and publicity 2005 £	<b>Total 2005 £</b>	Total 2004 £
Staff costs (note 5)	115,012	3,632,356	125,080	<b>3,872,448</b>	3,545,383
Rent, electricity and water	0	782,495	0	<b>782,495</b>	630,994
Insurance	0	53,131	0	<b>53,131</b>	49,753
Stationery, printing and postage	6,129	40,860	2,840	<b>49,829</b>	48,305
Travel and subsistence	0	40,941	7,636	<b>48,577</b>	85,494
Staff recruitment, welfare and training	42,567	21,928	0	<b>64,495</b>	92,883
Office equipment	1,037	55,068	1,498	<b>57,603</b>	61,001
Motor expenses	0	7,824	0	<b>7,824</b>	8,002
Finance charges	0	3,488	0	<b>3,488</b>	3,576
Museum maintenance	0	646,287	0	<b>646,287</b>	449,131
Curatorial	0	193,484	0	<b>193,484</b>	271,229
Cleaning	0	227,638	0	<b>227,638</b>	155,777
Collections management project	0	7,779	0	<b>7,779</b>	789
Planning and development	0	53,711	4,671	<b>58,382</b>	239,010
Advertising and publicity	0	0	272,242	<b>272,242</b>	263,149
Telephone	2,446	83,343	4,801	<b>90,590</b>	89,643
Audit, accounting and legal fees	10,513	26,655	9,350	<b>46,518</b>	50,391
Sundry expenses	0	22,740	0	<b>22,740</b>	42,744
	<u>177,704</u>	<u>5,899,728</u>	<u>428,118</u>	<b><u>6,505,550</u></b>	<u>6,137,254</u>

**Operating costs include the following**

	National Audit Office £	Other Accountants £	<b>Total 2005 £</b>	Total 2004 £
<i>Auditors' remuneration</i>				
For audit services	12,000	2,448	<b>14,448</b>	18,450
For other services	0	12,387	<b>12,387</b>	24,814
Total	<u>12,000</u>	<u>14,835</u>	<b><u>26,835</u></b>	<u>43,264</u>
Hire of equipment			<b><u>21,473</u></b>	<u>29,426</u>

**17 Analysis of Group net assets between funds**

	Unrestricted funds 2005	Grant in Aid		Other restricted funds 2005	<b>Total funds 2005</b>	Total funds 2004
		Operating funds 2005	Purchase grant funds 2005			
	£	£	£	£	£	£
Tangible fixed assets	151,481	35,842,811	1,714,601	9,244,994	<b>46,953,887</b>	41,703,097
Cash at bank and in hand	1,437,561	0	205,762	587,060	<b>2,230,383</b>	1,924,257
Other net current assets	1,239,649	(185,453)	(1,250,913)	1,229,824	<b>1,033,107</b>	(139,962)
Total assets less current liabilities	<u>2,828,691</u>	<u>35,657,358</u>	<u>669,450</u>	<u>11,061,878</u>	<b><u>50,217,377</u></b>	<u>43,487,392</u>
Creditors due after one year	(64,677)	0	0	0	<b>(64,677)</b>	(91,361)
Net assets	<u>2,764,014</u>	<u>35,657,358</u>	<u>669,450</u>	<u>11,061,878</u>	<b><u>50,152,700</u></b>	<u>43,396,031</u>

**18 Commitments**

	<b>Group 2005</b>	<b>Charity 2005</b>
<b>Lease commitments</b>		
<i>Net obligations under finance leases payable</i>		
Within one year	<b>90,750</b>	<b>31,890</b>
Between one and five years	<b>64,677</b>	<b>42,008</b>
	<b><u>155,427</u></b>	<b><u>73,898</u></b>
<i>Gross obligations under finance leases</i>		
Within one year	<b>98,940</b>	<b>35,955</b>
Between one and five years	<b>67,832</b>	<b>44,635</b>
Total gross obligations	<b><u>166,772</u></b>	<b><u>80,590</u></b>
Finance charges and interest allocated to future accounting periods	<b>(11,345)</b>	<b>(6,692)</b>
	<b><u>155,427</u></b>	<b><u>73,898</u></b>

Net obligations under finance lease contracts are secured by fixed charges on the assets concerned.

At 31 March 2005, the Museum had annual commitments under non-cancellable operating leases as follows

	Group and Charity	
	2005	2004
	£	£
<b>Operating leases expiring</b>		
<i>Plant and machinery</i>		
Within one year	<b>0</b>	940
In the second to fifth years	<b>9,355</b>	4,453
<i>Land and buildings</i>		
After five years	<b>516,500</b>	351,750

**19 Related parties**

Related parties with which the Museum had transactions during the year or balances at the year end were as follows

*Royal Air Force Museum Enterprises Ltd*

The relationship of the Museum to the company is disclosed in note 4, and the balances due from the company at the year end are disclosed in note 8.

*The Royal Air Force Museum Investments Limited*

The company was formed to hold, on behalf of the Trustees, the assets of the charity and thus minimise the administrative burden whenever a change in Trustees takes place. In March 2005, the leasehold property was transferred to this company from the charity.

*Royal Air Force Cosford Air Show*

Museum staff are involved in the RAF Cosford Air Show. The Museum has traditionally received a share of the proceeds after expenses. The sum of £53,000 (2004: £nil) was paid to the Museum in 2005.

*Ministry of Defence*

The Royal Air Force Museum is a Non-Departmental Public Body, sponsored by the Ministry of Defence (the MOD). The MOD is regarded as the related party. Grant in Aid funding from the MOD is separately disclosed in the Statement of Financial Activities.

*The Society of Friends of the Royal Air Force Museum, Hendon*

The Friends are a separate charity dedicated to supporting the activities of the Museum, and during the year £12,000 was received (2004: £nil).

*Aerospace Society*

The Aerospace Society operates along similar lines to the Society of Friends at Hendon and supports the activities of the Museum at its site at Cosford.

*Bomber Command Association*

The Bomber Command Association is a separate charity, which provides funds for the work of the Museum.

*Royal Air Force Museum American Foundation Inc.*

The American Foundation was incorporated in the United States of America on the 2 January 2002 and was granted exempt status from federal income tax under section 501 (a) of the Internal Revenue Codes on the 31 May 2002. This is a separate organisation that was established to raise funds to support the work of the Museum.

**20 Contingent liability**

The RAF Museum, as a National Museum, was given exempt status under Section 33 of the VAT Act in order that the Museum could claim back all of its input VAT. After an inspection by a VAT Officer, the Museum has been informed that because the Cosford and Stafford sites were not specifically listed in the Statutory Order, input VAT on expenditure incurred at these sites could not be reclaimed and input VAT previously reimbursed would have to be re-paid.

The Museum's sponsor, RAF PTC Command, have written to the VAT office in support of the Museum but should the matter not be resolved, PTC will make an application for the Statutory Instrument to be revised to include all of the Museum's sites.

## Annex A

### Accounts Direction given by The Secretary of State for Defence, with the approval of the Treasury

- 1 The Royal Air Force Museum (the Museum) shall prepare accounts for the financial year ended 31 March 1998 and subsequent financial years comprising
  - a a foreword;
  - b a statement of financial activities;
  - c a balance sheet;
  - d a cash flow statement; and
  - e notes to the accounts, including such notes as may be necessary for the purposes referred to in the following paragraphs.
- 2 If the Museum has subsidiary undertakings, the statements referred to in paragraph 1 shall be prepared on a consolidated basis. In addition, there shall be a balance sheet in respect of the Museum alone, with relevant notes. When preparing the consolidated accounts, the Board of Trustees shall observe all relevant guidance issued by the Treasury and the Ministry of Defence.
- 3 The accounts shall give a true and fair view of the incoming resources and application of resources during the financial year and the state of the Museum's affairs at the end of the financial year.
- 4 Subject to this requirement, the accounts shall be prepared in accordance with
  - a the Charities Act 1993, The Charities (Accounts and Reports) Regulations 1995 and the Statement of Recommended Practice (SORP) 'Accounting by Charities' (the Charities SORP);
  - b generally accepted accounting practices in the United Kingdom (UK GAAP);
  - c the disclosure and accounting requirements contained in 'The Fees and Charges Guide' (in particular those relating to the need for appropriate segmental information for services or forms of service provided) and in other guidance which the Treasury may issue from time to time in respect of accounts, which are required to give a true and fair view; and
  - d the accounting and disclosure requirements given in 'Government Accounting' and in 'Executive NDPBs: Annual Reports and Accounts Guidance', as amended or augmented from time to time;

in so far as these are appropriate to the Museum and in force for the financial year for which the accounts are to be prepared.
- 5 Clarification of the application of the accounting and disclosure requirements of the Charities Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.

- 6 The SOFA and the balance sheet(s) shall be prepared under the historical cost convention, modified as follows
- a by the inclusion of
    - i fixed assets at their value to the business by reference to current costs; and
    - ii stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value;
  - b articles forming part of the Museum's Collections, whether held as exhibits or part of the Reserve Collection shall not be capitalised, but held at nil/nominal value and the costs of all new articles for the Collections shall be charged to expenditure in the year of acquisition.
- 7 This direction shall be reproduced as an appendix to the accounts.

Signed by the authority of the Secretary of State of Defence.

## Schedule 1

### Application of the Accounting and Disclosure Requirements of the Charities Act and Accounting Standards

#### Charities Act

- 1 When preparing its statement of financial activities the Museum shall include under 'Resources Expended' a heading relating to the inclusion of notional charges for insurance (if applicable) and cost of capital, and shall include an additional heading 'Adjustment for the notional costs of capital' after 'Net Incoming Resources before Transfers'.
- 2 When preparing its balance sheet the Museum shall have regard to the balance sheet format prescribed in the Charities SORP, save that the balance sheet totals shall be struck at 'Total assets less current liabilities'.
- 3 The foreword shall be signed by the Accounting Officer of the Museum and the balance sheet shall be signed by the Chairman of the Museum's Trustees on behalf of the Board and the Accounting Officer of the Museum and dated. The Accounting Officer shall initial all the other pages of the financial statements.

#### Accounting Standards

- 4 The Museum is not required to include a note showing historical profits and losses as described in FRS 3.
- 5 The Financial Reporting Standard for Smaller Entities (FRSSE) should not be adopted unless specifically approved by the Treasury.

## Schedule 2

### Additional Disclosure Requirements

- 1 The foreword shall, inter alia
  - a state that the accounts have been prepared in accordance with the direction given by the Secretary of State for Defence with the approval of HM Treasury; and
  - b include a brief history of the Museum and its statutory background.
- 2 The notes to the accounts shall include details of the key corporate financial targets set by the Secretary of State together with an indication of the performance achieved.

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