

BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2013

Presented to Parliament pursuant to paragraphs 29 (7) and 30 (4) of Schedule 1 to the National Heritage Act 1983.

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CONTENTS

	Page
Trustees' and Accounting Officer's Annual Report	2
Remuneration Report	24
Statement of the Trustees' and Accounting Officer's Responsibilities	29
Governance Statement	31
Certificate and Report of the Comptroller and Auditor General	44
Statement of Financial Activities	47
Consolidated Balance Sheet	48
Cashflow Statement	49
Notes to the Financial Statements	50

TRUSTEES' AND ACCOUNTING OFFICER'S ANNUAL REPORT

INTRODUCTION

The Royal Armouries is the United Kingdom's National Museum of Arms and Armour. It is Britain's oldest museum, and one of the oldest museums in the world. It has one of the largest collections of arms and armour in the world, comprising of the National Collection of Arms and Armour, National Artillery Collection, and National Firearms Centre (NFC). It is also the keeper of the Tower of London history.

The Royal Armouries began life as the main royal and national arsenal and was originally housed in the Tower of London. Indeed the Royal Armouries has occupied buildings within the Tower for making and storing arms, armour and military equipment for as long as the Tower itself has been in existence.

In 1990, the decision was taken to establish a new museum in the north of England in which to house the bulk of the collection of world-wide arms and armour. As a consequence the main site of the Royal Armouries opened in Leeds in 1996. A continuous presence has been maintained in the Tower of London and in 1995 the Royal Armouries assumed responsibility of Fort Nelson, Portsmouth, which houses that part of the national artillery collection not held by the Royal Collection, the Royal Artillery Collection, or on loan around Great Britain. It also houses the Board of Ordnance Archive relating to artillery. The Royal Armouries also has a long term agreement to display at the Frazier History Museum in Louisville, Kentucky.

STRUCTURE, GOVERNANCE AND MANAGEMENT

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 Royal Armouries' compliance. The Royal Armouries is an exempt charity under the Charities Act 1993.

The governing body is the Board of Trustees, which was established in 1984 in accordance with the National Heritage Act 1983. Trustees are appointed by the Secretary of State for Culture, Media and Sport, with the exception of two Trustees, one of whom is appointed by HM The Queen, and the Constable of the Tower of London who is an ex-officio member of the Board.

The Board of Trustees is responsible for overseeing the Royal Armouries affairs and determining the overall strategy for the Royal Armouries. The number of Trustees who may serve at any one time may not be less than 6 or more than 11. A list of Trustees who served in the financial year is given on page 4. Trustees are not remunerated for their services but are eligible to claim reasonable expenses. The Board met four times during the year.

The Board of Trustees has the following charitable objectives under the provisions of the National Heritage Act 1983:

- To care for, preserve and add to the objects in the collection of arms, armour and associated objects
- To secure that the objects are exhibited to the public
- To secure that the objects are available to persons seeking to inspect them in connection with study or research
- To maintain a record relating to their collection, to arms and armour generally and to the Tower
- To 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.

The Board of Trustees appointed a director to be responsible for providing leadership to the Royal Armouries and reporting to the Board of Trustees in all matters relating to the Royal Armouries performance. This director also holds responsibility as Accounting Officer.

Prior to 28 May 2012 this role was undertaken by the Director General & Master. Since 28 May 2012 this role has been undertaken by the Interim Chief Executive Officer ("CEO"). Further details are provided in the Governance Statement.

There are four sub-committees of the Board:

- Finance and Capital Development Committee
- Knowledge and Audience Development Committee. From 31 January 2013 this Committee changed to Research and Education Committee
- Audit Committee
- Remuneration Committee

Board of Trustees of the Royal Armouries

The following persons were members of the Board of Trustees of the Royal Armouries in 2012/13 and served on the sub-committees shown:

	Date of appointment	Expiry of appointment
Chairman		
Wesley Paul	03.01.12	02.01.16
Members		
Patricia Langham CBE	04.11.04	03.11.12
Jon Hammond Booth	02.12.04	19.05.12
Chris Case	10.11.08	09.11.16
General the Lord Dannatt GCB CBE MC DL	01.08.09	31.07.13
Hemant Patel	12.07.10	11.07.14
Major General Sir Sebastian Roberts KCVO OBE	05.02.11	04.02.15
Stephen Smith	10.05.11	09.05.15
Mark Urban	03.09.12	02.09.16

Trustee Sub-Committees

Sub Committee	Chair	Members
<i>Audit</i>	Chris Case	Wesley Paul (to 01.11.12) Hemant Patel Andrew Broome (co-opted external member from 01.11.12)
<i>Finance and Capital Development</i>	Hemant Patel	Wesley Paul Chris Case Stephen Smith
<i>Knowledge and Audience Development (to 30.01.2013)</i>	Patricia Langham (to 03.11.12) Wesley Paul (from 04.11.12)	Wesley Paul Sebastian Roberts Jon Hammond Booth (to 19.05.12) Stephen Smith
<i>Research and Education (from 31.01.2013)</i>	Sebastian Roberts	Wesley Paul Stephen Smith Mark Urban
<i>Remuneration</i>	Wesley Paul	Hemant Patel Chris Case Richard Dannatt

Recruitment and Appointment of New Trustees

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

Upon appointment, new trustees go through a formal induction process, which includes a full briefing by the Chairman, Accounting Officer and members of the Executive Team.

Executive Team

Lt Gen Jonathon Riley – Director General & Master (left 19 November 2012)

Chris Walker – Finance & Administration Director (appointed 25 May 2012)*

Peter Armstrong – Creative & Development Director

Col Frank Riley – Head of National Firearms Centre

Brian Ball – Finance & Administration Director (left 10 May 2012)

Andrew Scott – Interim CEO (appointed 28 May 2012, left 24 August 2012)

* Chris Walker was appointed Interim CEO on 24th August 2012 and continues to act in this capacity.

Staff Communications

Communications between staff and senior management are held monthly through staff briefings and e-newsletters which cover strategy, performance and updates on site development. Staff representation is by the Prospect Trade Union.

Sickness Absence

The average number of days lost per head due to sickness absence during the year was 10.3 (2011/12: 8.6).

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. There is no discrimination based on 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 its employment practices to ensure all relevant staff receive appropriate training.

Data and Information Risk

The Finance & Administration Director is the Senior Information Risk Owner and is responsible for the development of information risk policies and protocols. During the year the Royal Armouries adopted new policies that ensured it adheres to Cabinet Office requirements relating to information risk and handling. These policies have been reinforced with staff training.

Following an incident involving the misuse of CCTV, a report was made to the Information Commissioner's Office. Following a review, the Information Commissioner was satisfied with the steps taken by the Royal Armouries to address the issue.

Financial Instruments and Risk

Details of financial instruments are given in note 24 to the financial statements. There is not considered to be any material risk in relation to financial instruments.

Relationship between Charity and Other Parties

Details of related party transactions are contained in note 23 to the financial statements.

The Royal Armouries is a non-departmental public body whose parent body is the DCMS. The DCMS is regarded as a related party.

The Frazier History Museum in Louisville, Kentucky, where the Royal Armouries has a long term agreement to display, is no longer regarded as a related party. Since the departure of Jon Hammond Booth in May 2012, the Royal Armouries has not had any formal representation on the board of the Frazier History Museum, although the current Chairman of the Royal Armouries, Wes Paul, is invited to attend board meetings.

The Tower of London houses part of the Royal Armouries' national collection of arms and armour and the Royal Armouries is also the keeper of the Tower of London history. However, the Tower of London itself is in the care of Historic Royal Palaces. The relationship between the Royal Armouries and Historic Royal Places is defined in a Memorandum of Understanding. A Trustee of the Royal Armouries, General the Lord Dannatt, is also a Trustee of Historic Royal Palaces.

In 2009 a decision was taken by the Royal Armouries Board of Trustees to set up a trading company to run commercial activities previously undertaken by the charity. Royal Armouries Trading & Enterprises Ltd, incorporated on 14 September 2010, is a wholly-owned subsidiary of the charity. The charity transferred its commercial trading activities to the new company on 1 April 2011. The Company issued 150,000 £1 shares on 29 July 2010 which became fully paid up on 29 March 2011.

A new trust, *The Arms and Armour Heritage Trust*, has been formed which has the ability to award grants that can support the achievement of the Royal Armouries charitable objectives as well as grants to other charities supporting the efficiency of the Armed Services. The Arms and Armour Heritage Trust is completely self regulating and the Trust Deed ensures that no serving Royal Armouries board member can be a trustee. The Accounting Officer and Finance & Administration Director will attend meetings but have no voting powers. A Commercial Licence Agreement has also been agreed detailing the charges to be made by the Royal Armouries for administrative support and venue hire provided. The Royal Armouries awarded grants of £885,000 to The Arms and Armour Heritage Trust during the year.

PERFORMANCE INDICATORS

Although the funding agreement covering the current spend period has not yet been agreed and signed by the Royal Armouries and the DCMS, both parties have agreed to adopt a revised list of performance indicators. The new list was proposed for adoption across all the national museums under DCMS. The actual performance achieved against each of the indicators for 2011/12 and 2012/13 is set out in the table below.

With the agreement of DCMS, the method of recording visitor numbers to the White Tower at the Tower of London was revised during the year. Prior year comparatives have been restated where applicable.

Those key performance indicators marked with an asterisk do not include figures for the Tower of London, where the information is either not available from Historic Royal Palaces or else is not relevant.

The reduction in museum visits is attributed to the impact of the Queen's Golden Jubilee and London Olympics, with visitor numbers over the summer being 59,000 down on 2011/12.

Performance Indicator	2012/13 Out-turn	2011/12 Out-turn
Total number of visits	1,810,783	1,852,365
Number of unique users visiting the website	466,851	409,859
Number of children aged 16 and under visiting the Royal Armouries	521,224	544,184
Number of overseas visitors	1,227,563	1,269,078
Number of children under 18, in formal education, attending the Royal Armouries in facilitated and self directed visits	12,298	12,711
Number of children under 18 participating in on-site organised activities	233,110	238,999
Percentage of visitors who would recommend a visit	99.5%	99.5%
Admissions income *	£111,000	£71,000
Trading income *	£395,256	£337,000
Fundraising income *	£126,000	£1,026,000
Ratio of fund raising to Grant-in-Aid	1.4%	13.0%
Number of UK loan venues *	120	106

EXHIBITIONS AND DISPLAYS

Tower of London

The transformation of the White Tower took a major step forward in 2012, with the opening of Royal Armouries' fourth new major gallery – Storehouse. Although many visitors imagine the White Tower basement to have hidden grisly torture equipment and terrible tales of the prisoners' incarceration, the reality is more pragmatic. Historically, the White Tower, within the fortress of the Tower of London, played a vital role in national security – protecting and maintaining the nation's arms and armour supplies to the Army and Navy.

Now, working in partnership with Historic Royal Palaces (HRP), Royal Armouries has created Storehouse – the new basement display showcasing some of the most important treasures from this national arsenal. From big guns to banners, and pikes to pistols, this collection includes objects from British history, plus trophies and weapons from home and abroad.

The Royal Armouries is now focussing on arguably the most exciting challenge in the White Tower – the redisplay of the world's longest running visitor attraction, The Line of Kings, due to open in July 2013. Once the redevelopment is complete, the White Tower will not only be the Royal Armouries' spiritual and ancestral home, but an iconic showpiece for one of the finest collections of arms and armour in the world.

Storehouse is one of the only areas in the White Tower that offers access to disabled visitors. With the help of HRP's access group, we were delighted to develop a series of interactive displays, introducing visitors to the objects and stories that they were unable to experience, previously, due to physical restrictions.

Fort Nelson

Fort Nelson's first full operational year following its major refurbishment, allowed 70,000 visitors to enjoy the fully restored Victorian fortress, home to the national collection of artillery – the big guns. The new galleries, visitor centre and education centre, were complimented by the introduction of a new-look events programme, linked to HM The Queen's Diamond Jubilee. A 21-gun salute, marking The Queen's 60 years on the throne, saw one of the Fort's busiest days of 2012.

Throughout the year, a themed series of weekends traced Fort Nelson's story, from its Victorian roots through to the First and Second World Wars and culminated in September 2012 with the return of the Tattoo after a two-year break. The Fort Nelson Tattoo featured a unique mix of military and civilian bands and display teams as well as firings of the 'big guns', and was rounded off with an evening fireworks display.

Last year certainly saw Fort Nelson re-establish itself as a significant South Coast visitor attraction. The Royal Armouries are now implementing a strategy to build on its role as the area's only national museum, with the further advantage of free admission.

Leeds

With both the Queen's Diamond Jubilee and the London Olympics to celebrate, 2012 proved an exciting and memorable year for both our visitors, and our academic calendar. To mark the Jubilee, the Museum threw a huge tea party, inviting guests from throughout the region to join our "Right Royal Affair". Other celebrations included displaying Royal Armouries' own replica crown jewels from the Tower of London, a family events programme and staging the Queen's trophy joust. Throughout the summer, Royal Armouries brought history to life by telling the story of the evolution of sport – from medieval battlefields to today's modern arenas. This story was told throughout the museum, linked to displays, and included live performances by the museum's visitor experience team.

Working in Partnership - Royal Armouries staged a play '*The Field of Cloth of Gold*', devised in conjunction with our curatorial team, and produced by Angus & Ross Theatre Company. This later toured the area. Royal Armouries also linked up with local organisations and groups, including Northern Film School students, to produce a series of films.

Inspired by – Royal Armouries joined forces with a community-based, adult learning group who created a series of three-dimensional sculptures. This formed part of the now highly successful "Inspired by" programme - an initiative which harnesses the talents of community groups and individuals and invites them to represent the museum's national collections in exciting and innovative ways, using their own voices and creative processes. This included the two following exhibitions:

A War Within – living with Post Traumatic Stress Disorder (PTSD) - a small photographic exhibition by photojournalist James Arthur Allen, exploring the effects of war from the perspective of its subjects, giving them a voice and informing the viewer.

Other Ranks - a larger exhibition, and one that transfers to Fort Nelson in 2013, a new installation by sound artist Amie Slavin, who is blind. Staged in the rear of the War Gallery, Other Ranks was supported by the Ministry of Defence and sponsored by the Arts Council.

The artist used the power of sound as the focal point, to capture the heroism and sacrifice of those serving under the British flag. The multi-sensory, sound-based installation aimed to portray Army life to those on Civvy Street, in a vibrant and unique way.

National Firearms Centre

2012 was the year the National Firearms Centre (NFC) broke into the training market with two significant contracts. The first saw the NFC win a national tender to deliver Light Weapons Capability Appreciation Training to Ministry of Defence staff. The second saw it secure the legal profession's accreditation for a new course, aimed at prosecution and defence teams involved in criminal cases involving firearms. This was a new course, developed to provide expertise for those involved in the Bar Standards Board and the Solicitors' Regulation Authority.

The NFC has also continued to successfully delivery firearms education to Army recruits from Catterick Garrison. An aim is to expand this to more battalions and other Government departments. The NFC is currently investigating running education courses to university students in relevant academic fields, involving a forensic element.

COLLECTIONS MANAGEMENT SYSTEM (CMS)

In 2011, Royal Armouries launched a three-year project to replace the current Collections Management System (STAR). During 2012, the project team toured the country looking at similar successful systems and discussed needs with staff. A specification was then drawn up and a tender process for a company to deliver the work was undertaken. It was agreed that publishing collections information online was crucial to promoting the Royal Armouries' world-class collection to a wider national and international audience. This was set as a major objective, and the project renamed as the '*Collections Management System/Online Public Access project*' (CMS/OPA).

Following Board agreement in January 2013, the project moved into an assurance phase, which was completed in May 2013. Once contracts are awarded, implementation will begin. On a practical level, data systems are currently being cleaned up and missing data being input in advance of rolling out the new system in 2014. This will coincide with the museum's centenary commemorations, marking the outbreak of the First World War.

PUBLICATIONS

Royal Armouries published two long awaited and prestigious publications in 2012 - the Littlecote Catalogue and the Illuminated Fightbook.

Littlecote: The English Civil War Armoury was written by the Royal Armouries' Thom Richardson and Graeme Rimer, and published in September 2012 to coincide with the Leeds English Civil Wars conference. The book forms the catalogue raisonné of the Popham Armoury, secured for the nation by the Royal Armouries over 25 years ago, and is a major contributor to our understanding of 17th century arms and armour in England. Over two-thirds of the stock was sold in the first six months. Once the initial stock is exhausted, the book will be offered as print-on-demand.

Following a bespoke publicity campaign, more than 40 sponsors pre-ordered the prestigious limited edition of *The Illuminated Fightbook MS I.33*. One of the oldest known manuals on swordsmanship in the Western Canon, the manuscript was digitally photographed, printed in full size and beautifully bound in leather. These 40 sponsors enabled the project to go ahead and Royal Armouries' partner, Extraordinary Editions, managed the facsimile through the production process and published it in May 2013.

CONSERVATION

Royal Armouries' conservation department reported a busy and productive year, with a large volume of high-profile loans being prepared, installed and, in some cases, returned in a short space of time. Approximately 377 objects passed through the conservation laboratory as part of an estimated 21 loans dealt with on-site by the department.

Highlights of this year's loans programme included supporting:

- The Royal River exhibition at the National Maritime Museum
- Treasures of the Royal Courts : The Tudors, Stuarts and the Russian Tsars exhibition at the V&A
- The Shakespeare: Staging the world and The Horse: From Arabia to Royal Ascot exhibitions at the British Museum
- The Noble Art of the Sword: Fashion and Fencing in Renaissance Europe exhibition at The Wallace Collection
- The Golden Age of the English Court: From Henry VIII to Charles I exhibition at Moscow Kremlin Museums
- Great Mughals: Myth, Reality and Legacy exhibition at the British Library

The preparation of 321 objects - including 236 breastplates and backplates for the forthcoming Line of Kings exhibition at the Tower of London - marked a challenging end to the year. The department also enabled a combination of student placements/internships, talks, presentations and research as part of ongoing work to support the Conservation profession, generally.

This year the team were joined by three very capable students/interns; Coralie Dietsch from the Ecole de Condé (Paris), Philippa Beesley from the University of Durham and Kate Perks who undertook an internship in the Arms and Armour Conservation supported by ICON and generously funded by the Clothworkers' Foundation. Royal Armouries' conservation department has also been involved in, or facilitated the research, of a number of external scholars including Dr Sonia O'Connor, Professor David J Williams and Dr Nick Dupree.

Additionally, staff presented a paper at the 2012 ICOMAM Conference in Oman; supplied an editorial piece published in the Museums and Heritage Magazine; taught on the West Dean College Conservation of Transport and Industrial Collections Course; and gave presentations on Firearms Training in association with the National Army Museum and the Army Museums Ogilby Trust.

Royal Armouries is delighted to report that the Conservation Department's two permanent staff members are now Accredited (ACR) Members of the Institute of Conservation (ICON) with Nyssa Mildwaters gaining her professional accreditation in July. The presence of two Accredited Conservators within such a small department reinforces the existing strength of the Royal Armouries' Conservation team.

FUNDRAISING AND SPONSORSHIP

Following the successful completion of the capital campaign for the new-look Fort Nelson, the Development Department was able to focus its efforts on the final phase of the White Tower re-development – the re-display of the historic Line of Kings. The award of £100k from the DCMS / Wolfson Galleries Improvement Fund was the fundraising project highlight.

The other focus area was the planned Warfare Gallery project and the development of its fundraising strategy, following the unsuccessful bid to the Heritage Lottery Fund.

The trust and foundation campaign for this project looked promising, with an initial lead grant of £200k from the Garfield Weston Foundation. However, with changes to the organisation at a senior level and the subsequent cancellation of the Warfare project, the decision was taken in close consultation with the Garfield Weston Foundation to return the

grant. This was done with a view to re-approaching the funder once consultation on a master plan for the Leeds Museum is complete - relationships with the Foundation remain positive.

Following key staff returning to work in March 2013 following maternity leave, the department had a rare opportunity to reassess fundraising for the organisation as a whole - rather than focusing on the next big capital campaign. Preparation is now underway to ensure the team structure, and the department, is fit-for-purpose for when the long-term vision, strategy and master plan are in place.

RESEARCH AND EDUCATION

School Education

Leeds

Since re-launching the education programme in September 2011, the Visitor Experience Team has been working hard to develop its audience, currently running a series of seven themed, paid workshop sessions.

The sessions are designed for students aged from 5 to 14 years, and are split into two 45 minute slots; an object-based lesson and a hands-on experience called the 'discover session'. The sessions focus on the collection's strengths and includes 'A Knight's Tale' (storytelling session for younger groups); plus themes based on the Middle Ages, Tudors, English Civil Wars, and First and Second World Wars. Tours and handling sessions for private groups of all ages are also run.

Royal Armouries is particularly proud to now offer sessions to special schools for both physically and mentally handicapped children as a result from the training received throughout the year from providers such as Mencap.

With nearly 7,000 mainstream school children taking part in these paid-for sessions and an estimated 5,000 self-guided visits, the Museum continues to be a major national educational resource for taking learning outside of the classroom.

Fort Nelson

The new education offer Discover@FortNelson proved a success and bookings rose by 13%, during the first full financial year. A high level of satisfaction was received via feedback forms, and Fort Nelson also won the 'Learning Outside the Classroom' Quality Award.

Over the past year, the most popular sessions have included Second World War Spies, Florence Nightingale and Catapults and Trebuchets. The majority of bookings came from primary schools, indicating that the marketing strategy to this sector has proved successful.

The team has made extensive use of the new Heritage Lottery funded galleries particularly the Hospital room, to enhance the interactive nature of the offer to schools. This has now been extended into the tunnels with the reconstruction of a First World War barrack room in the second magazine.

Meanwhile, the education department has worked closely with schools and the Local Education Authority at conferences and attended training workshops on the new draft National Curriculum. As a result, the department is in a strong position to start designing a new science session focused on gunpowder. Work is also underway to tailor all sessions so they match the new curriculum, due to be introduced in 2014.

Academic Programme

Two major conferences were presented in September 2012. The first was the English Civil Wars Conference in Leeds followed by The Hundred Years Wars Conference at the Tower of London. Delegates travelled from all over the world to listen to some of the most senior academics in their fields, discussing topics as diverse as kingship, cavalry and parliament. The Leeds conference also marked the launch of Littlecote: The English Civil War Armoury publication, along with the staging of re-enactments and a pre-conference handling session.

Royal Armouries' ever-popular Hands on History seminars continued to sell out, with topics as diverse as Toxophily: Archery from Asia and Europe to the skills of the Military sniper in Out of Nowhere. Extra dates had to be added for the seminar on the Battle of Towton, due to its popularity.

Royal Armouries continues to use its Curator Emeritus group to not only add their immensely rich knowledge to help with our own research, but also to deliver occasional seminars. In 2012, The Arms of Feudal Japan sold out.

In 2013, Royal Armouries also launched the first of its now regular Spotlight evening talks, run by the academic staff. These one-hour, event lectures often ran over time, due to the high level of public participation and interest.

COLLECTIONS MANAGEMENT

Policy and Procedure

The Collections Department has ensured that all relevant Royal Armouries' policies and procedures are enforced and complied with, across the organisation and not just in collections. This responsibility is administered by the Company.

Enquiries

Curatorial staff received, on average, 50 enquiries a month from a diverse range of people and organisations. These included requests from a number of film makers and computer games manufacturers, as well as the general public.

Accreditation

Museum accreditation is always a complex task. Every department, policy and procedure has to be audited to ensure that the most professional and current systems are in place, and that the museum runs both efficiently and ethically. The Royal Armouries received its full accreditation from the Museum and Library Association in 2011.

Major Acquisitions 2012/13

Details of significant acquisitions and donations made during 2012/13 are included in note 9 to the financial statements.

ENVIRONMENT AND SUSTAINABILITY

Public bodies are obliged to include a sustainability report within the annual report and accounts unless the body falls under the de-minis threshold for reporting of 250 full time equivalent staff or floor space of less than 1,000 metres. As Royal Armouries full time equivalent staff for 2012/13 was 145 we are not required to include a report.

The Royal Armouries is continually looking at ways of becoming more energy efficient. During the year there was a programme of refurbishing or replacing some significant items of plant and machinery with improved energy efficiency a key consideration. Plans are currently being developed to implement a rolling programme to replace existing lighting with more energy efficient LED lighting.

FUTURE DEVELOPMENT PLANS

The Royal Armouries' next period of strategic growth is vitally important. The Leeds museum has enjoyed considerable success and visitor numbers for the area have peaked at a substantial level of penetration and market achievement.

Whilst the Royal Armouries is proud of this record, it also recognises its responsibility to reach wider sections of the public throughout the UK. This can be through personal visits or virtual visits using the website. Opportunities to facilitate this are being researched including the possible development of a new collection management system (CMS) with the facility for greater public access.

Education will continue to play a critical role as the Royal Armouries reaches new audiences across all ages, genders, cultural and economic backgrounds and national identities.

As the Royal Armouries looks to the future, it is realistic about the challenges that lie ahead. The economy, both in the UK and globally, is beset with many problems. It is against this challenging background that we will be looking to position the Royal Armouries for its next phase of exciting growth and development.

This will require funding at a time when the burdens on UK taxpayers are already overwhelming. The Royal Armouries will therefore look to other funding sources to accomplish and sustain this growth.

REFERENCE AND ADMINISTRATION DETAILS OF THE CHARITY, ITS TRUSTEES AND ADVISERS

A register of Trustees' interests is held and this is regularly updated. It is available on request.

The Secretary of State for Culture, Media and Sport was appointed principal regulator of the Royal Armouries on 1 June 2010, with the implementation of the relevant provisions under the Charities Act 2006.

Royal Armouries Addresses

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FINANCIAL REVIEW

Overview of Financial Position

The financial statements have been prepared in accordance with the Statement of Recommended Practice 2005 (SORP 2005), Accounting and Reporting for Charities and by reference to the Government Financial Reporting manual. 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 (SOFA) on page 47.

In 2012/13 the Royal Armouries recorded £101k net outgoing resources before transfers for general unrestricted funds. In addition, a restricted funds surplus of £4k has been recorded by the Royal Armouries Development Trust. More information on this can be found at note 25 on page 69.

Incoming resources for the period amounted to £10,138k which included Grant-in-Aid amounting to £8,773k. Resources expended amounted to £10,671k, resulting in net outgoing resources of £533k (before transfers and revaluations). £1,802k was attributable to depreciation provisions; these were financed from the capital project income credited to designated and restricted funds in previous years.

Visitor levels to the Royal Armouries during 2012/13 were 2% higher than budgeted and 2% lower than last year. The absence of any significant capital development activity across all three sites has led to a reduction in sponsorship and donations of £900k to £126k. Royal Armouries share of gate income from Historic Royal Palaces has contributed £137k towards the Tower of London operating costs.

Total resources expended included salaries and related employee costs of £4,628k, this being £71k lower than 2011/12. Salary and related employee expenditure accounted for 43.4% of operational cost with depreciation at £1,802k for 16.9%.

The performance of the group's trading subsidiary, Royal Armouries Trading and Enterprises Ltd, was disappointing with a loss of £88k being recorded. The loss was due to a number of factors including loss making events, delayed commercial activity and lack of corporate sponsorship. Actions to address the loss making position were started in 2012/13 and have continued in the new financial year. These have included restructuring the board and non-executive team; more rigorous assessment and control of museum events; additional commercial activity with guaranteed income; more targeted marketing to promote events as well as greater focus on securing sponsorship and fund raising events.

Two charitable donations in the form of sponsorship totalling £15k were made during the year. The sponsorship was aimed at raising the profile of the Royal Armouries. One donation was to support a fundraising event at the Tower of London for Coming Home, Combat Stress and the Chapel Royal of St. Peter ad Vincula. The second donation was to support a theatre production of a play focusing on Henry VIII.

With the consent of the Secretary of State for Culture, Media and Sport, the Board of Trustees of the Royal Armouries has, subject to a number of conditions, awarded a grant of £885k to The Arms & Armour Heritage Trust. The trust is required to use the grant for the purpose of promoting enjoyment, knowledge or the understanding of arms and armour.

Balance Sheet

Of the fund balances at 31 March 2013:

- restricted funds, subject to specific restriction by the providers of the funds, amounted to £48,325k (2011/12: £48,464k), the majority of which comprise the value of land and buildings;
- designated funds, set aside to finance tangible fixed assets other than those classed as restricted, amounted to £4,921k (2011/12: £4,589k); and
- the surplus on general unrestricted funds available for use in furtherance of the general objectives of the Royal Armouries amounted to £560k (2011/12: £763k).

By virtue of the National Heritage Act 1983, the Royal Armouries 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 Royal Armouries ownership and the Trustees have determined that the cost of obtaining valuations for the pre 2001 collection is not commensurate to the benefits provided by doing so. 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 £266k were capitalised in 2012/13.

The £0.2m reduction in Debtors is due to the timing of capital spend at the White Tower meaning a fall in contribution amounts due from Historic Royal Palaces as well as the general phasing of spend resulting in a lower VAT recoverable balance. The £0.5m increase in creditors is due primarily to the increase in the grant amount payable to The Arms and Armour Heritage Trust.

Under the terms of its government grant, the Royal Armouries 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 Royal Armouries is critically dependent on continued government Grant-in-Aid. The funds of the Royal Armouries are adequate to support its future requirements only in the technical sense that commitments are not made beyond the resources available.

Reserves Policy

The policy on reserves is reviewed by the Trustees as part of the annual planning and budget setting process.

Historic reserves are subject to Treasury budgetary rules under which access to reserves is subject to approval from the Department of Culture, Media and Sport. The same rules also limit the ability to build up reserves from current year operating surpluses.

Nonetheless the Trustees recognise that a General Reserve allows the organization to deal with short-term fluctuations in income, to provide adequate working capital and to underpin budgetary risk arising from capital expenditure projects.

The Trustees have considered the scale, complexity and risk profile of the Royal Armouries, and taken account of the funding base which consists of Grant-in-Aid from the Department of Culture, Media and Sport and self-generated income. The former has historically been reasonably foreseeable, given that it is subject to a 3 year funding agreement, but in the current climate the level of this can no longer be assumed. Self-generated income is always liable to fluctuation depending on economic circumstances and visitor activity.

After considering these factors, the Trustees consider that a General Reserve of between £300,000 and £400,000 should be maintained, representing around 3 months of operational expenditure not covered by Grant-in-Aid.

Although the Royal Armouries total reserves at 31 March 2013 are shown as £54 million on the balance sheet, all but £560k in General Reserve and £273k in Designated Reserves is tied up in restricted funds, fixed assets and the Royal Armouries Development Trust Fund, none of which can be used for other purposes.

Payment of Creditors

The Royal Armouries continues to review the efficiency of its operations and aims to comply with best practice wherever possible. The Royal Armouries aims to settle all bills within 30 days or in accordance with the supplier's terms of business. In 2012/13, the Royal Armouries paid approximately 66% (2011/12: 71%) of supplier invoices within the target of 30 days. The fall in the % paid within target was due to the significant changes in senior personnel during the first 6 months of the year resulting in the process of approving and sending payments taking longer to complete. The more stable management structure has enabled steps to be taken to improve the payment performance and, in the final 3 months of the year, approximately 79% of supplier invoices were paid within the target of 30 days.

Wesley Paul
Chairman

Date 27 June 2013

Chris Walker
Accounting Officer

Date 27 June 2013

REMUNERATION REPORT

Remuneration Committee

The membership of the Remuneration Committee is:

Wesley Paul (Chairman)

Hemant Patel

Chris Case

Richard Dannatt

Policy on the Remuneration of the Director General & Master and Directors

The Remuneration Committee should review the salaries of the Accounting Officer and Directors with reference to any guidance from the Government. Following the instance in 2011/12 where an increase was awarded to a director without a review by the Committee, the terms of reference and organisation of the Committee have been reviewed and the Board is putting in place the additional measures described in the Governance Statement.

The emergency budget following the election of the Coalition Government in 2010 imposed a two year pay freeze on all staff except those earning a full time equivalent salary of less than £21,000. The Government announced further sanctions in the 2011 Autumn Statement that will restrict the pay award possible to 1% of the overall pay bill for a further two years.

With consideration for these sanctions, in the 2012 pay award, directors and senior members of staff received pay increases of between 0% and 1%. All other members of staff received 1%.

Policy on Duration of Contracts, Notice Period and Termination Payments

The Director General & Master and Directors are permanent employees of the Royal Armouries. Notice periods are between three and six months and all termination payments are in accordance with the Royal Armouries contractual terms.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium or classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2012. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, 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. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution) Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website <http://www/civilservice.gov.uk/pensions>

Cash Equivalent Transfer Value

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 figures shown relate 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 the disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pensions Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include 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.

The following disclosures have been audited.

2012/13 Figures (2011/12 figures are shown in brackets)

	Remuneration	Annual Equivalent Salary	Accrued pension at pension age and related lump sum as at 31 March 2013 or leaving date	CETV at 31 March 2012 or leaving date ¹	CETV at 31 March 2013 or leaving date	Real increase in CETV	Real increase in pension / related lump sum at pension age
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
J Riley	68 (95)	95 (95)	5-10 / n/a	88	115	23	0-2.5/n/a
C Walker	64 (-)	90 (-)	0-5 / n/a	-	13	10	0-2.5/n/a
A Scott	21(-)	84 (-)	- /-	-	-	-	- /-
M Reah	-(-)	-(-)	- /-	-	-	-	- /-
P Armstrong	72(66)	72 (72)	10-15 / n/a	118	149	21	0-2.5/n/a
F Riley	45 (17)	45 (45)	0-5 / n/a	5	20	12	0-2.5/n/a
L Drake	23 (-)	50 (-)	- /-	-	-	-	- /-
D Collins	- (31)	- (45)	- /-	19	-	-	- /-
S Burt	- (53)	- (63)	- /-	678	-	-	- /-
G Rimer	- (49)	-(49)	- /-	512	-	-	- /-
B Ball	13 (64)	64 (64)	5-10 / n/a	93	96	2	0-2.5/n/a

Remuneration is gross salary only as no overtime or allowances are paid to Directors. No bonuses were paid during 2011/12 or 2012/13. Trustees receive no emoluments however they are reimbursed for legitimate expenses, see note 4b of the financial statements.

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. The remuneration of the highest paid director in the Royal Armouries in 2012/13 was £95k (2011/12 £95k). This was 4.9 times (2011/12 4.9) the median remuneration of the workforce, which was £19k (2011/12 £19k). Remuneration includes salary and allowances but does not include employer pension contributions.

Colonel Frank Riley was appointed on 16 November 2011.

Colonel David Collins left on 6 December 2011.

¹ CETV values at 31 March 2012 for J Riley and F Riley have been restated based on the latest actuarial report.

Steve Burt retired under voluntary redundancy terms on 28 December 2011. Following HM Treasury approval, a compromise agreement was agreed with Mr Burt to allow him to receive an unreduced pension as if he had retired aged 65. The cost of buying out the actuarial reduction on his pension was £55,000 and he also received £19,451 pay in lieu of notice. These amounts were in addition to the remuneration shown in the table above.

Graeme Rimer retired under voluntary redundancy terms on 29 February 2012. Mr Rimer received a compensation payment of £41,000 and £15,288 pay in lieu of notice. These amounts were in addition to the remuneration shown in the table above.

Brian Ball left on 31 May 2012.

Chris Walker was appointed as Finance & Administration Director on 25 May 2012, initially working on a part time basis up to 16 July 2012. He was appointed Interim CEO on 24 August 2012 and the remuneration report above includes an additional allowance for this role.

Mark Reah was appointed as Interim Finance & Administration Director on 28 May 2012. His services were provided via a third party. During the period from 28 May 2012 to 22 July 2012 the Royal Armouries was charged £19,950, excluding VAT, by the third party for his services under a short term contract which expired on 27 July 2012.

Andrew Scott was appointed as Interim CEO on 28 May 2012 on a 3 month fixed term contract up to 24 August 2012. No pension contributions were made by either Andrew or the Royal Armouries during his period of employment.

Lucy Drake was appointed as HR Director on 15 October on a 12 month fixed term contract.

Lt Gen Jonathon Riley resigned with effect from 19 November 2012. He received £23,750 pay in lieu of notice in line with his contractual terms and £500 contribution to legal costs.

Wesley Paul

Chairman

Date 27 June 2013

Chris Walker

Accounting Officer

Date 27 June 2013

STATEMENT OF THE TRUSTEES' AND THE ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Schedule 1 Section 29 of The National Heritage Act 1983 the Secretary of State for Culture, Media and Sport (with the consent of HM Treasury) has directed the Board of Trustees of the Royal Armouries to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Royal Armouries and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Trustees and the Accounting Officer are required to comply with the requirements of the *Government Financial Reporting Manual* and in particular 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 on a reasonable basis;
- State whether applicable accounting standards as set out in the *Government Financial Reporting Manual* and in the Statement of Recommended Practice 2005 Accounting and Reporting for Charities have been followed, and disclose and explain any material departures in the accounts; and
- Prepare the accounts on a going concern basis.

The Accounting Officer of the Department for Culture, Media and Sport had designated the Director General & Master as the Accounting Officer of the Royal Armouries. From 28 May 2012 the Interim CEO was designated as the Accounting Officer. Further details are provided in the Governance Statement.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Board's assets, are set out in the Accounting Officers memorandum issued by HM Treasury.

The Trustees and the Accounting Officer who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that the Royal Armouries has disclosed all relevant information to their auditors. Having made enquiries of the Board of Trustees and the Board's auditor, the Accounting Officer has confirmed that he has taken all the steps that he ought to have taken in order to make himself aware of any information relevant to the audit and to establish that the auditor is aware of that information.

Wesley Paul
Chairman

Date 27 June 2013

Chris Walker
Accounting Officer

Date 27 June 2013

ROYAL ARMOURIES GOVERNANCE STATEMENT

Purpose

This statement covers the Royal Armouries governance arrangements for the year ended 31 March 2013 and up to the date the financial statements were approved by the Board of Trustees. Following my appointment as Interim Chief Executive and Accounting Officer in August 2012, I initiated a thorough review of processes and controls across the whole support services operation. This statement also reports the progress being made with that review.

Governance Framework

The Royal Armouries is the United Kingdom's National Museum of Arms and Armour, comprising the National Collection of Arms and Armour, National Artillery Collection, and National Firearms Collection. It is also the keeper of Tower of London history. It is Britain's oldest museum, and was established in its current format under the National Heritage Act 1983, which sets down the statutory duties as follows:

- care for, preserve and add to the objects in the collections
- secure that the objects are exhibited to the public
- secure that the objects are available for study and research
- maintain a record relating to their collections, arms and armour in general and the Tower
- generally promote the public's enjoyment and understanding of arms and armour

Operationally, the Royal Armouries is a Non Departmental Public Body sponsored by the Department for Culture, Media and Sport ("DCMS"). The formal relationship with the department is captured in a Framework Document between the two organisations, which sets out the broad parameters within which the Museum should operate. Copies of this document and any subsequent amendments are placed in the libraries of both Houses of Parliament and made available to the public on the Royal Armouries website.

Royal Armouries is also an exempt Charity and subject to the relevant law and practice of a Charitable body in the delivery of its objectives.

The Strategic direction of the Royal Armouries is set by a Board of non executive Trustees, who also serve as Trustees of the Charity. One Trustee is appointed by HM The Queen; the Constable of the Tower of London is an ex-officio Trustee and the remaining Trustees and Chair are appointed by the Secretary of State for Culture, Media and Sport.

Operational issues and the implementation of strategy are delegated to an Executive Team led by the Director General and Master of the Armouries. On the advice of the Board of Trustees, DCMS appointed the Director General and Master of the Royal Armouries to be the Accounting Officer. Chapter 3 of *Managing Public Money* sets out the responsibilities of an Accounting Officer and these include: personal responsibility for safeguarding the public funds for which they have charge, propriety and regularity in handling public funds and ensuring that the Royal Armouries is run according to the highest standards of governance, decision-making and financial management.

Change in Accounting Officer

The Accounting Officer and Director General & Master for the period 1 April 2012 – 7 May 2012 was Lt General Jonathon Riley. As noted in the Governance Statement for the year ended 31 March 2012, Jonathan Riley was suspended whilst investigations were undertaken into allegations relating to the regularity of certain transactions, and resigned as Director General & Master and Accounting Officer on 16 November 2012. During this period, the Board appointed an Interim Chief Executive Officer ("CEO") to undertake the duties of the Director General. DCMS in turn appointed the Interim CEO as Accounting Officer.

The Interim CEO and Accounting Officer for the period 28 May to 23 August 2012 was Andrew Scott and since 24 August 2012 has been Chris Walker. The role of Master of the Armouries was not filled during this period, and remains vacant. The Chair of the Board, Wesley Paul, and the Chair of the Audit Committee, Chris Case, have worked closely with the Accounting Officers, DCMS and the Executive team to ensure that an effective control environment and appropriate governance arrangements are maintained. This has included regular meetings with the Interim CEO and key members of the Executive Team and more frequent review of management information. In addition, the Chair of the Board has met regularly with DCMS who have provided support and guidance throughout.

The Board reviewed the allocation of responsibilities and decided to appoint separate individuals to the roles of Director General and Master of the Armouries and, as at the date of this report, a recruitment campaign is underway to identify a suitable candidate for the Director General role.

Significant Internal Control Weaknesses and actions to address them

A number of issues were identified in early 2012-13 relating to control processes in HR which ultimately led the Comptroller and Auditor General to qualify his Regularity audit opinion on the 2011-12 financial statements. A detailed report was included in the accounts for the year ended 31 March 2012, and included one instance which occurred in early 2012/13. Immediate steps were taken to review all pay files and to improve the documentation held on file to ensure any changes to responsibilities or job roles are adequately supported.

Furthermore, in order to guard against a repetition of these events, additional measures are being put in place. The Audit Committee instructed the Internal Auditors to undertake a review of processes and controls in Finance and HR. This identified a number of weaknesses, which the Executive have agreed a plan and timetable to address. Audit Committee will support the Accounting Officer in reviewing progress against this plan.

In addition, the following action is being taken:

1. A review of core processes and controls across the whole support services operation, with the aim of ensuring that these are fit for purpose for a National Museum and provide for adequate checks and balances at all levels. This is being led by the Interim Chief Executive.
2. An interim HR Director has been appointed and has already introduced a more structured appraisal framework covering all members of staff and supported by a management training programme. As part of our commitment to training, a full time Training officer has also been appointed on an interim basis and will continue to roll out the management and development programmes arising from the appraisals process. A formal review of pay and grading is scheduled for mid 2013 together with a full review of payroll processing and controls in collaboration with the Head of Finance.
3. The Internal Auditors identified significant control weaknesses in the IT function in 2011/12. An interim Head of IT was appointed during the year and has made significant progress in addressing these, including data backup, operating system infrastructure and rationalisation of servers.
4. The approach to risk management has been overhauled to ensure that it is embedded to a greater degree at all levels within the organisation from operational teams to the Board. Local registers are reviewed by the Executive team and Audit Committee, and the most serious issues escalated to the Board.

5. The membership of the Audit Committee has been reviewed and an assessment of skills and experience undertaken. As a result a new member has been appointed from the legal profession with detailed experience of risk management and controls. In addition, Audit Committee meetings are being held more frequently and a more rigorous approach taken to monitoring delivery.

The Royal Armouries has in place policies and procedures to manage conflicts of interest. At each Board and committee meetings all attendees are asked to declare any conflict of interest and the details are recorded in the formal minutes. A register of interests for Trustees and Directors is maintained and updated bi-annually. Potential conflicts of interest are required to be disclosed in advance and where appropriate the individual concerned takes no direct part in the decision making process. Likewise, potential conflicts of interest in the procurement and recruitment processes are required to be disclosed and the individuals should not participate in the decision making process.

The Board and Audit Committee also recognise their responsibilities for the supervision of the Executive Team and the assessment of risk. A new Chairman was appointed on 3 January 2012 and has taken steps during the year to strengthen and reorganise the sub Committees supporting the Board. The Research and Education Committee has replaced the Knowledge and Audience Committee, with a remit to act as the 'think tank' for the Board. It comprises current and former Trustees and key members of the Executive and Collections team. The Board is also supported by an Academic Council of leading historical specialists under the Chairmanship of John Childs, emeritus Professor of Military History at Leeds University.

The Board

The Board met four times in 2012/13, twice at Royal Armouries sites in Leeds, and once each at the sites at the Tower of London and Fort Nelson. The Board considers the information presented to it and where appropriate will request amendments to formats or such additional information as may be required to improve the understanding of the operations and activities of the organisation.

There were a number of vacancies on the Board at the start of the period, and the Chairman in collaboration with DCMS has started a recruitment process to identify suitable new Trustees based on a review of the current mix of skills and experience, and the future needs of the Royal Armouries, in particular to reflect the increasing importance of maximising private sector income and strengthening our relationships in the cultural sector.

As a result of the number of changes at Board level, the Chairman has decided to await the outcome of this recruitment process and the appointment of new trustees before undertaking a formal review of Board effectiveness.

At 25 June 2013, the Board comprised the Chairman and 6 Trustees and full details are included on page 4 of this report.

Table of attendance at meetings during 2012/13

	Board	Audit	Finance & Capital Development	Knowledge & Audience Development	Research & Education	Remuneration
Wesley Paul	4/4	2 /3	3/3	2/2	1/1	0/0
Pat Langham	2/3	-	-	2/2	-	-
Chris Case	3/4	4/4	3/3	-	-	0/0
Richard Dannatt	2/4	-	-	-	-	0/0
Hemant Patel	4/4	4/4	3/3	-	-	0/0
Mark Urban	2/2	-	-	-	-	-
Sebastian Roberts	3 /4	-	-	2/2	1/1	-
Stephen Smith	4/4	-	3/3	2/2	1/1	-

In collaboration with the Accounting Officer, the Trustees are responsible for setting and approving the strategy and key policies and for monitoring progress towards achieving these objectives. The Royal Armouries has a Strategic Plan which identifies the direction of the organisation over a period of five years. The plan is considered by the Board and when approved, submitted to DCMS. From this, an annual Business Plan is developed for each area of activity and delivery delegated to the Executive team. These plans are submitted to the Board in March of each year and when approved, submitted to DCMS. The Business Planning process includes a review of recent activity and lessons learnt.

Over the course of the year key topics discussed by the Board included:

- Reports from the Academic Council and Board subcommittees on progress made with the review of strategic priorities initiated during the year.
- Review of overseas strategy
- Medium term financial and business planning
- The redevelopment of Fort Nelson
- Development plan for galleries in Leeds
- The continued development of New Dock
- Partnership with the Guards Museum
- Exhibition programme

Board Papers are prepared by the Executive Team and circulated at least one week prior to meetings. Regular reports are provided on strategy, policy, governance, financial position, meetings of sub committees and operational issues. The Board considers these to be of an appropriate standard to support detailed discussion, and where relevant supplementary information is provided through verbal update or presentation at the meeting.

Committees of the Board

The Board has established a number of Committees to provide support and monitoring on matters of risk, control and governance. During the year, the Board decided to set up a new Research and Education Committee to act as the cultural 'think tank' of the Royal Armouries and advise the Board on issues of cultural policy. This Committee will replace the functions previously managed by the Knowledge and Audience Committee, which ceased during the period. The other Committees are Remuneration; Finance and Capital Development; and Audit.

Remuneration Committee

The Remuneration Committee reviews the salaries of the Accounting Officer and Directors. The Committee did not meet during the period given the level of involvement of the full Board in matters relating to the Accounting Officer and there were no other relevant issues to consider

Finance and Capital Development Committee

This committee has responsibility for reviewing the annual budget, quarterly re-forecasts, the outturn and all capital projects and income generating ventures valued at more than £50,000. The Accounting Officer, Finance & Administration Director and Creative Development Director routinely attend the meetings.

Research and Education Committee

This committee was created during the year to act as the *think tank* for the cultural policy of the museum. It replaces the Knowledge and Audience Development Committee which considered aspects of communication, education and outreach. The Accounting Officer, Head of Collections; Creative Development Director and senior Curators routinely attend the meetings.

Audit Committee

The Board has delegated authority to the Audit Committee for reviewing the integrity of the annual report and accounts together with the effectiveness of the system of internal control and risk management systems. Specific duties include working with the external auditors to consider the nature and scope of the audit together with its outcomes, cost effectiveness

and the audit fee. The Audit Committee will also review and discuss with management and auditors the financial statements including Accounting Policies, significant judgements and estimates and compliance with relevant financial reporting standards. Finally, the Audit Committee reviews and comments on the Governance Statement and the appointment of Internal Auditors, together with the scope of their work and its outcomes.

The committee members have diverse skills which include recent and relevant financial experience, governance, risk and health and safety matters. The Accounting Officer and Finance & Administration Director and the internal and external auditors routinely attend the meetings.

The committee has received and reviewed reports and presentations from the management, internal and external auditors to fulfil its term of reference. In particular the committee considered:

- Accounting principles, policies and procedures adopted in the financial statements and the accounting issues dealt with in the accounts
- External audit planning document, the detailed findings following audit and recommendations therein
- Areas covered by internal audit during 2012/13 which included Risk Management; Collections Security; Key Financial Controls; HR and Payroll and general IT review.
- Policies due for renewal
- The risk register and processes being undertaken to embed effective risk management across the organisation.

A report from Audit Committee has been adopted as a standing item on the Board Agenda to ensure that matters of risk and control receive the appropriate attention.

Subsidiary Companies

Royal Armouries Trading and Enterprises Ltd ("RATE") became operational in April 2011 with the objective of delivering the commercial activities of the Royal Armouries including the retail outlets and ticketed events in Leeds and from August 2011 the new visitor centre at Fort Nelson. RATE is a wholly owned subsidiary of the Royal Armouries and is managed by an independent Board of Directors with relevant skills and experience including sales, finance and marketing. The objectives of RATE are set out in its Memorandum and Articles of Association and its Statutory Accounts are approved by the Board of RATE and subject to external audit by the Comptroller and Auditor General.

A number of measures are in place to provide assurance to the Accounting Officer that RATE is operating in accordance with the best interests of the Royal Armouries. These include a Service Level Agreement and Trustees who serves on both Boards. In addition, the Accounting Officer is also appointed as a Director of RATE and attends Board meetings in that capacity together with a senior member of the Royal Armouries finance team. The RATE business plan is agreed with the Royal Armouries Board and there are regular updates to the Royal Armouries Board on the financial performance of RATE activities and the anticipated financial contribution for the year.

Trading conditions were difficult in 2011/12 and as set out in Note 26 to these Accounts RATE incurred a loss of £88,000 in the period. This was due principally to a shortfall in sponsorship income and lower than anticipated attendances at paid for events. In order to address this situation and return RATE to profitability the Royal Armouries Board is undertaking the following steps:

- A full review of activities including more rigorous budgeting and appraisal of the commercial events programme;
- Development of the online retail offer, including review of product range, upgraded website and greater emphasis on alignment with the new Collection Management System
- Review of marketing including appointment of an external expert
- Introduction of additional income generating opportunities at the Tower of London.
- Reorganisation of the RATE Board in November 2012 following a review of the skills and experience required to take the business forward.

Directorate and Executive Team

The Accounting Officer is supported by a Directorate team comprising:

Creative & Development Director
Head of National Firearms Centre
Finance & Administration Director
Head of Collections
General Manager

An Interim HR Director was appointed in October 2012 and joined the Directorate team, which meets regularly and on a monthly basis is joined by a wider group of key senior managers.

The Directorate owns the Strategic Plan at executive level and is also responsible for keeping under review all controls, policies and procedures – and in particular to ensure at an operational level that the organisation complies with changes in the law or with instructions and guidance from the sponsoring departments, H.M. Treasury, and the Charity Commission.

With effect from 24 August 2012 the permanent Director of Finance and Administration was appointed Interim CEO, and during this period an Interim Head of Finance has been in post to ensure adequate segregation of duties is maintained.

The Executive, consisting of the Directorate and all senior managers is the custodian of the annual business plan and its main business is assessing progress; considering and implementing changes and realigning resources to respond to changes in the operating environment.

System of Internal Control

The Accounting Officer and the Board are responsible for setting a system of internal control and reviewing its effectiveness and the Executive is responsible for implementing and maintaining the system of controls. This system is designed to manage rather than eliminate the risk of failing to achieve aims, objectives and policies; it therefore provides reasonable but not absolute assurance of effectiveness.

Where significant risks are recognised and accepted then potential impacts are identified and appropriate mitigating actions put in place. The key areas identified in our strategic risk register are:

- Continued pressure on public sector funding.
A 15% real terms cut in resource Grant in Aid is being effected across the Museum sector in the period of the current spending review (2011/12 – 2014/15). There has already been a significant impact for the Royal Armouries on staffing levels, in particular on the operational areas and in the amalgamation of the Interpretation and Education Teams. The overall economic situation remains subdued and the outlook for the next spending review is equally tough. In response, the Royal Armouries has set up Royal Armouries Trading and Enterprises Ltd to provide a focus for commercial activities; a more business like culture is being embedded across the organisation and fundraising opportunities are being actively pursued.

- Building a strong leadership team.
As outlined above, there have been several changes in senior management during the year and 2012/13 has been a period of consolidation in the leadership team.

- Financial impact of maintaining the Armouries physical infrastructure.
The Museum in Leeds was built in the mid 1990s and is now reaching the stage where further investment is required to maintain its effective operation. Professional advice has been sought to quantify the likely commitment over the next 20 years, and the outcome is a detailed analysis of the anticipated financial impact, which is substantially greater than the current level of capital Grant in Aid funding.

- Attracting and retaining a skilled workforce
The cut in Grant in Aid and Public Sector pay freeze have both had a significant impact on staffing. The overall picture is largely determined by external factors, but within this the Royal Armouries actively seeks to provide development opportunities wherever possible for existing staff; to support relevant structured training and to take advantage of new funding opportunities – for example, the generous support of the Clothworkers Guild for a bursary post in the Conservation team.

- Maintaining the engagement with our audiences and stakeholders
Our audiences range from the Academic Community to the many hundreds of thousands whom we welcome each year to our venues and events; from those who support us financially to those who look to us to inform, educate and entertain. A common thread is the expectation that what we offer will be of the highest quality and will engage and challenge. This requires an investment not only financially but in terms of expertise, time and imagination.

- Significant control weakness
As already noted, a number of control weaknesses were identified and reflected in the 2011/12 Governance Statement. Action has been taken to address these as discussed elsewhere in this Statement and progress against the planned improvements to controls is being monitored by the Accounting Officer and Audit Committee.

Independent Assurance

The Accounting Officer has responsibility for reviewing the effectiveness of the system of internal control and the review is informed by the work of the internal auditors and the executive directors who have responsibility for the development and maintenance of the internal control framework, and also by comments made by the external auditors in their management letter and other reports.

In order to provide the assurance necessary to support completion of this Governance Statement, the Accounting Officer has taken into account the reports provided by the Internal Auditor; the minutes of Trustee and Committee meetings; discussions with the Chair of Audit Committee and other long serving Trustees together with the information provided by the current Executive Team; a detailed review of the Management Accounts and the remedial actions described above to address the identified control weaknesses.

Internal Audit for 2012/13 was provided under contract by KPMG. The number of days of audit time was increased from 26 to 44 in response to the control issues identified during the year and specific audits were undertaken on:

	OPINION
• Risk Management	Weak
• Collections Security	Weak
• IT General Controls	Weak
• Key Financial Controls	Satisfactory
• Human Resources and Payroll	Weak

Overall KPMG concluded that the control environment was weak during the period. This reflects the decision by management to ask the Internal Auditors to review areas where concerns were previously raised and is being addressed through the review process outlined elsewhere in this report. The impact of these changes is recognised by KPMG who note that 'despite our overall rating, we have seen significant progress made by senior management to address internal controls'. This includes the appointment of a new Director of Finance & Administration in May 2012, and Interim HR Director and a new Head of IT.

Overall, the view of the Board and Accounting Officer is that the governance, risk management and internal control have been adequate to allow the Royal Armouries to continue its usual operations. However, the work now underway to ensure processes and controls in HR, IT and Finance are fit-for-purpose are developments of key attention for 2013/14. Until these are resolved, the status of internal control and the level of inherent risk

remains at a higher level than is considered appropriate by the Audit Committee and the Board. This will require the continued enhanced levels of vigilance by management and related oversight by the Board and the Audit Committee.

Compliance with the Corporate Governance Code

The Royal Armouries is moving towards compliance with the intentions of the 'Corporate governance in central government departments: Code of good practice 2011', in so far as it is relevant for an NDPB. In addition to the review of core processes and controls, the key areas the Board and Management are seeking to address/improve are discussed within this Governance Statement and include:

- increasing the frequency of Board meetings;
- engaging in a formal process of rigorous evaluation of the Board's own performance;
- embedding risk management to a greater degree within departments.

Data and Information Security Management

The Royal Armouries has an information management strategy with which all staff must comply. The Royal Armouries Head of Library, Archives and Records Management acts as the Departmental Records Officer, Freedom of Information Officer and Data Controller. The Royal Armouries Finance and Administration Director has been designated as the Senior Information Risk Owner and Freedom of Information champion. Particular focus for 2012/13 has been our IT infrastructure and the establishment of new collections management systems, improved management information systems including financial and audience data, data storage, archives and records, the website, communications and the virtual museum.

The Royal Armouries have reviewed the status of information and data security during the year to ensure that information is correctly managed and safeguarded. These are contained in the Royal Armouries Records and Information Management Policy and the Information Security Policy. A prioritised action plan is in progress to address the requirements of the Cabinet Office.

Following an incident involving the misuse of CCTV, a report was made to the Information Commissioner's Office. Following a review, the Information Commissioner was satisfied with the steps taken by the Royal Armouries to address the issue.

The requirements of the government's transparency agenda have been implemented within the required time lines. Staff capacity and systems are in place to carry through this work on a continuous basis.

Chris Walker
Accounting Officer

Date 27 June 21013

Wesley Paul
Chairman

Date 27 June 21013

Chris Case
Chairman, Audit Committee

Date 27 June 2013

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

I certify that I have audited the financial statements of the Board of Trustees of the Royal Armouries for the year ended 31 March 2013 under the National Heritage Act 1983. The financial statements comprise: the Consolidated Statement of Financial Activities, the Group and Museum Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board of Trustees, Accounting Officer and auditor

As explained more fully in the Statement of the Trustees' and the Accounting Officer's Responsibilities, the Trustees and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Heritage Act 1983. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Board of Trustees of the Royal Armouries' and the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Trustees of the Royal Armouries; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Trustees' and Accounting Officer's Annual Report, Remuneration Report, Statement of the Trustees' and Accounting Officer's Responsibilities and Governance Statement to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the resources expended and incoming resources recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the resources expended and incoming resources recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of the Board of Trustees of the Royal Armouries' affairs as at 31 March 2013 and of its incoming resources and application of resources for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Heritage Act 1983 and Secretary of State directions issued with HM Treasury consent thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions issued with HM Treasury consent under the National Heritage Act 1983; and
- the information given in the sections headed Structure, Governance and Management, Environment and Sustainability, Future Development Plans and the Financial Review included within the Trustees' and Accounting Officers Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Amyas C E Morse

Date 3 July 2013

Comptroller and Auditor General

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

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2013

	Notes	Unrestricted funds		Restricted funds	Total funds	Total funds
		General	Designated		2012/13	2011/12
		£000	£000	£000	£000	£000
Incoming resources						
Incoming resources from generated funds						
Voluntary Income						
Grant-in-Aid	2	7,501	1,272	-	8,773	7,901
Grant DCMS / Wolfson		-	-	100	100	-
Other voluntary income		-	-	26	26	1,026
Share of HRP gate income	3	137	-	-	137	227
Activities for generating funds						
Income from trading activities		546	-	-	546	454
Conservation income		2	-	-	2	10
Investment Income		7	-	4	11	14
Incoming resources from charitable activities						
Events income		256	-	-	256	194
Educational income		65	-	-	65	39
Other operating income		222	-	-	222	261
Total incoming resources		<u>8,736</u>	<u>1,272</u>	<u>130</u>	<u>10,138</u>	<u>10,126</u>
Resources expended						
Costs of generating funds						
Costs of generating voluntary income	4	(313)	-	-	(313)	(389)
Fundraising trading: costs of goods and services	4	(776)	(23)	(33)	(832)	(785)
Charitable activities						
Care of the collection	4/5	(3,029)	(190)	(288)	(3,507)	(3,227)
Education	4/5	(618)	(53)	(74)	(745)	(675)
Visitor experience	4/5	(3,781)	(490)	(682)	(4,953)	(4,570)
Governance costs	4	(101)	-	(1)	(102)	(97)
Other outgoing resources						
Redundancy costs and holiday pay	4	(219)	-	-	(219)	(372)
Impairment / write down of Fort redevelopment	4	-	-	-	-	(820)
Total resources expended		<u>(8,837)</u>	<u>(756)</u>	<u>(1,078)</u>	<u>(10,671)</u>	<u>(10,935)</u>
Net incoming / (outgoing) resources before transfers		(101)	516	(948)	(533)	(809)
Transfers between funds		(102)	(269)	371	-	-
Net incoming / (outgoing) resources before other recognised gains / (losses)		(203)	247	(577)	(533)	(809)
(Loss) / Gain on revaluation of investments		-	-	4	4	13
(Loss) / Gain on revaluation of assets		-	85	434	519	1,583
Net movement of funds		(203)	332	(139)	(10)	787
Fund balances as at 1 April 2012		763	4,589	48,464	53,816	53,029
Fund balances as at 31 March 2013		<u>560</u>	<u>4,921</u>	<u>48,325</u>	<u>53,806</u>	<u>53,816</u>

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 50 to 70 form an integral part of these accounts.

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2013

	Notes	2012/13		2011/12	
		Group	Museum	Group	Museum
		£000	£000	£000	£000
Fixed Assets					
Intangible Assets	7	31	31	58	58
Tangible Assets	8	50,398	50,398	50,824	50,824
Heritage Assets	9	2,372	2,372	2,106	2,106
Investments	12	139	-	128	-
Investments in Subsidiary	13	-	150	-	150
		<u>52,940</u>	<u>52,951</u>	<u>53,116</u>	<u>53,138</u>
Current Assets					
Stocks	14	55	-	62	-
Debtors	15	576	651	819	833
Cash at Bank and in Hand		3,027	2,813	2,052	1,847
		<u>3,658</u>	<u>3,464</u>	<u>2,933</u>	<u>2,680</u>
Creditors					
Amounts falling due within one year	16	(2,633)	(2,534)	(2,108)	(2,045)
		<u>1,025</u>	<u>930</u>	<u>825</u>	<u>635</u>
Net Current Assets					
		<u>1,025</u>	<u>930</u>	<u>825</u>	<u>635</u>
Total Assets less Current Liabilities					
		<u>53,965</u>	<u>53,881</u>	<u>53,941</u>	<u>53,773</u>
Provision for Liabilities and Charges	17	(159)	(159)	(125)	(125)
		<u>53,806</u>	<u>53,722</u>	<u>53,816</u>	<u>53,648</u>
Net Assets					
Represented by					
Income Funds					
Restricted Reserves	21	48,325	48,153	48,464	48,296
Unrestricted Reserves					
Designated funds	21	4,921	4,921	4,589	4,589
General	21	560	648	763	763
		<u>53,806</u>	<u>53,722</u>	<u>53,816</u>	<u>53,648</u>

The notes on pages 50 to 70 form an integral part of these accounts.

The financial statements of pages 47 to 49 were approved by the Board / Trustees and were signed on their behalf by:

Chris Walker
Accounting Officer

Date 27 June 2013

Wesley Paul
Chairman

Date 27 June 2013

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

	Notes	2012/13	2011/12
		£000	£000
Net cash inflow from operating activities	22	2,199	2,199
Returns on investment and servicing of finance	22	11	14
Capital expenditure and financial investment	22	(1,235)	(2,110)
Increase in cash		975	103

Cash balances comprise money held in commercial bank accounts and cash in hand.

The notes on pages 50 to 70 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 and the required valuation methods for financial instruments. The accounts comply with the Charities SORP 2005, applicable accounting standards, and the requirements of the Companies Act 2006 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 Royal Armouries.

The consolidated financial statements incorporate those of the Royal Armouries Development Trust and Royal Armouries Trading & Enterprises Ltd. Royal Armouries Foundation, Inc and Arms and Armour Heritage Trust are not consolidated into the Group Accounts as they are independent of the Royal Armouries.

All financial statements are made up to 31 March 2013. The consolidation has been carried out on a line by line basis.

1.2 Fundamental accounting concept

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 over the next 12 months, is adequate to meet known and reasonably foreseeable circumstances likely to arise in that period. 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 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 comprise 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 an 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. Directorate and Administrative Support have been allocated using headcount whilst Shared Services has been allocated based upon floor space.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

1.5 Fund accounting

General funds are available for use at the discretion of the Trustees in furtherance of the general objectives of the Royal Armouries.

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.

Transfers between funds occur when designated funds allocated for collection acquisitions are moved to restricted funds and backlog depreciation following tangible fixed asset revaluations.

1.6 Intangible fixed assets

Intangible fixed assets reflect the cost of software licences for a number of front line and back office systems together with the cost of developing the Royal Armouries' website. Depreciation is provided in the year following capitalisation on a straight line basis over 3 years.

1.7 Tangible fixed assets

In line with Treasury guidance and FRS15, the buildings were valued at depreciated replacement cost in March 2009 and the remaining lives adjusted accordingly.

Other tangible fixed assets other than the collection assets (see note 1.8) were professionally revalued as at 31 March 2006 and by the use of indices issued by the Office for National Statistics and Building Cost Information Service thereafter. Depreciation is provided on all tangible assets from the year following acquisition at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful life as follows:

Buildings	14 years, 29 years, 47 years & 48 years
Plant & machinery	10 years, 14 years, 17 years & 27 years
Fixtures, fittings & equipment	3 to 10 years

Tangible fixed assets are defined as assets costing £2,500 or more with a useful life of greater than 1 year. All fixed assets, excluding IT, 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.

1.8 Heritage fixed assets

The Royal Armouries is the National Museum of Arms and Armour and has one of the largest collections of arms and armour in the world which comprises the National Collection of Arms and Armour, National Artillery Collection and National Firearms Centre. It is also the keeper of the Tower of London history.

The collection of heritage assets is held to support the Royal Armouries' charitable objectives defined in the National Heritage Act 1983 including; the care and preservation of the collection; increasing knowledge, understanding and appreciation of the collection; upkeep of records relating to the collection and Tower of London.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

1.8 Heritage fixed assets (continued)

The Trustees do not consider that reliable cost or valuation information can be obtained for the vast majority of the collection. This is because of the diverse nature of the assets held, the uniqueness of certain individual items, the number of assets held and the lack of comparable market values. The Trustees also consider the cost of obtaining valuations is not commensurate to the benefits of inclusion to the user of the accounts.

The Royal Armouries does not therefore recognise these assets on its Balance Sheet, other than acquisitions since 2001 which are reported at cost, where the object was purchased or at the museum curator's best estimate of market value where the object was donated. The threshold for capitalisation is £2,500 for individual collection additions.

As the additions are deemed to have indeterminate lives and high residual values the Trustees do not consider it appropriate to charge depreciation.

Subject to the approval of the Trustees, the Royal Armouries may dispose of items from the collection and this normally occurs when the item is deemed unsuitable for retention in the collection and disposal is not detrimental to the public interest, where it is a duplicate of an item already held or the object is damaged. It is usual for disposal proceeds to be used in furtherance of the collection.

Expenditure which, in the Trustees view, is required to preserve or clearly prevent further deterioration of individual collection items is charged to the Statement of Financial Activities when it is incurred.

1.9 Stock

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

1.10 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.

1.11 Operating leases

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

1.12 Taxation

The trading profits generated through Royal Armouries Trading & Enterprises Ltd are paid to the parent under Gift Aid and the levels of non-primary purpose trading remaining in the main charity are such that no corporation tax provision has been made.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

1.13 Grants

With the consent of the Secretary of State for Culture, Media and Sport the Board of Trustees of the Royal Armouries has awarded two grants during the year. The grants are recognised in the Financial Statements once the recipient Trust has accepted the terms and conditions attached to the grant in writing.

1.1.4 Financial Instruments

The Royal Armouries classifies its financial assets into loans and receivables and available for sale.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Consisting of trade and other debtors there is no intention to trade these loans and receivables and these assets are valued at amortised cost less impairment, where appropriate.

Available for sale financial assets are investments that the Royal Armouries does not plan to hold until maturity. Subsequent to initial recognition these assets are recorded at fair value, with any realised and unrealised gains and losses reflected in the Statement of Financial Activities.

All financial liabilities are recorded at amortised cost.

1.15 Provisions

Provisions are recognised when it is probable that a transfer of economic benefits will be required to settle an obligation and a reliable estimate of the amount can be made.

1.16 Holiday Pay Accrual

The 2012/13 financial statements include an accrual for outstanding holiday pay due to employees as at 31 March 2013. The movement on the accrual is included in note 4 to the Financial Statements.

1.17 Investment in Subsidiary

In the Museum accounts the investment in its subsidiary undertaking, Royal Armouries Trading & Enterprises Ltd is stated at cost.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Grant-in-Aid

Grant-in-Aid received in 2012/13 was £8,773,000 (2011/12: £7,901,000). The full amount has been credited to income during the year.

The money is available for running costs, capital improvements and collection purposes in accordance with the funding agreement. The sum of £1,006k (2011/12: £512k) has been designated by the Trustees for the purposes of capital projects. The sum of £266k (2011/12: £71k) has been designated by the Trustees for the purposes of collection purchases.

3. Share of gate income generated at the Tower of London

	2012/13 £000	2011/12 £000
Historic Royal Palaces	<u>137</u>	<u>227</u>

4. Total resources expended

	Staff costs £000	Other direct costs £000	Impairment, Depreciation & Disposals £000	Allocated Support Cost £000	2012/13 £000	2011/12 £000
Direct Costs						
Cost of generating funds						
Cost of generating voluntary income	169	39	-	105	313	389
Fund raising: cost of goods and other costs	223	286	56	267	832	785
Charitable activities						
Care of the collection	1,113	811	450	1,133	3,507	3,227
Education	220	154	127	244	745	675
Visitor Services	847	1,066	1,172	1,868	4,953	4,570
Governance	-	102	-	-	102	97
Write down of Fort redevelopment	-	-	-	-	-	820
Redundancy / Early retirement / Holiday pay	219	-	-	-	219	372
	<u>2,791</u>	<u>2,458</u>	<u>1,805</u>	<u>3,617</u>	<u>10,671</u>	<u>10,935</u>
Support Costs						
Directorate	603	257	-	(860)		
Administrative support	459	346	-	(805)		
Shared services	775	1,177	-	(1,952)		
	<u>1,837</u>	<u>1,780</u>	<u>-</u>	<u>(3,617)</u>		
	<u>4,628</u>	<u>4,238</u>	<u>1,805</u>	<u>-</u>		

Governance costs

	2012/13 £000	2011/12 £000
Trustee expenditure	16	16
Audit fees (see note 6)	86	81
	<u>102</u>	<u>97</u>

4a Staff Costs

	2012/13 £000	2011/12 £000
Salaries and wages	3,376	3,387
Agency staff	266	157
National Insurance contributions	235	236
Superannuation	532	547
Early retirement costs	34	42
Utilisation of provisions	(31)	(79)
Redundancy costs	194	404
Holiday pay (see note 1.16 to the financial statements)	22	5
	<u>4,628</u>	<u>4,699</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Total resources expended (continued)

Following a review and changes to the staffing structure at Fort Nelson, the Royal Armouries offered a voluntary redundancy scheme in late 2013 with three employees leaving in March 2013 and a further two potentially redundant pending on the outcome of a trial in a new role. A role in Leeds became redundant and as a consequence a further employee took voluntary redundancy in March 2013. When the former Director General & Master of the Armouries resigned in November 2012 he was eligible to pay in lieu of notice.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
<£10,000	-	-	-	2	-	2
£10,000 - £25,000	-	-	1	2	1	2
£25,000 - £50,000	-	-	2	2	2	2
£50,000-£100,000	-	-	4	1	4	1
Total number of exit packages	-	-	7	7	7	7
Total resource cost (£0,000)	-	-	349	187	349	187

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year the decision was made.

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

	Group and Museum	
	2012/13	2011/12
Cost of generating voluntary funds	6	6
Fundraising: cost of goods sold and other	16	16
Care of the collection	52	52
Education	10	10
Visitor Experience	61	61
	145	145

Director General & Master of the Armouries

Details of the Director General & Master of the Armouries and Directors remuneration are contained within the Remuneration report.

Employees receiving remuneration over £60,000

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

	2012/13	2011/12
£60,001 - £65,000	1	1
£65,001 - £70,000	1	1
£70,001 - £75,000	1	-
£90,001 - £95,000	-	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 future pensions in respect of employees who are or have been in the service of the Royal Armouries.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Total resources expended (continued)

The Principal Civil Service Pension Scheme (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. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2012/13, employers' contributions of £531k were payable to the PCSPS (2011/12: £545k) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012/13 to be paid when the member retires and not benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £1k (2011/12: £2k) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £0k, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

As at the balance sheet date there were no current employees contributing to a **partnership** pension. Consequently there were no contributions due to the **partnership** pension providers at the balance sheet date and no prepaid contributions at that date

4b. Trustees

No member of the Board of Trustees of the Royal Armouries received any emoluments during the year. Nine Royal Armouries Trustees, one Royal Armouries Development Trust Trustee and four Non-Executive Directors of Royal Armouries Trading & Enterprises Ltd were reimbursed for their travel and subsistence expenses during the year, which amounted to £16,259 (2011/12: Eleven Royal Armouries Trustees, two Royal Armouries Development Trust Trustees and three Non-Executive Directors of Royal Armouries Trading & Enterprises Ltd were reimbursed for their travel and subsistence expenses during the year, amounting to £15,396).

5. Grants Awarded

With the consent of the Secretary of State for Culture, Media and Sport, the Board of Trustees of the Royal Armouries have, subject to a number of conditions, awarded grants of £885k (2011/12: £469k) to The Arms & Armour Heritage Trust. The Trust is required to use the grant for the purpose of promoting enjoyment, knowledge or understanding of arms and armour.

Grants falling due under one year

	Group	
	2012/13	2011/12
	£000	£000
Commitment as at 1 April 2012	464	-
Grants awarded during the year	885	469
Grants settled during the year	(444)	(5)
Commitment as at 31 March 2013	905	464

Grants falling due under one year

	Museum	
	2012/13	2011/12
	£000	£000
Commitment as at 1 April 2012	444	-
Grants awarded during the year	885	444
Grants settled during the year	(444)	-
Commitment as at 31 March 2013	885	444

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Net Incoming / (Outgoing) Resources

	2012/13 £000	2011/12 £000
Net incoming resources is stated after charging:		
Operating lease rentals	390	399
External auditor for audit work	54	62
Internal Auditor	32	19
Legal services	79	79
Travel and subsistence costs	140	135
Writedown of trading stocks to net realisable value	-	-

All auditors' remuneration was in respect of audit work. £53,000 was charged by the National Audit Office on behalf of the Comptroller and Auditor General who now also audits Royal Armouries Trading & Enterprises Ltd and £1,440 by Volans, Leach and Schofield.

7. Intangible Fixed assets (Group and Museum)

	Website Development £000	Software Licences £000	Total £000
Cost as at 1 April 2012	95	115	210
Additions	5	-	5
Revaluation	-	-	-
Cost as at 31 March 2013	100	115	215
Amortisation as at 1 April 2012	56	96	152
Amortisation during year	19	13	32
Amortisation as at 31 March 2013	75	109	184
Net Book Value at 31 March 2013	25	6	31
Net Book Value at 31 March 2012	39	19	58

8. Tangible Fixed assets (Group and Museum)

	Buildings £000	Plant and Machinery £000	Fixtures Fittings and Equipment £000	Total £000
Cost				
As at 1 April 2012	46,887	4,691	5,057	56,635
Additions	108	291	429	828
Disposals	-	-	(21)	(21)
Impairment	-	-	-	-
Revaluations	406	91	135	632
As at 31 March 2013	47,401	5,073	5,600	58,074
Depreciation				
As at 1 April 2012	2,782	675	2,354	5,811
Charge for the year	1,040	276	454	1,770
Disposals	-	-	(18)	(18)
Revaluation	24	16	73	113
As at 31 March 2013	3,846	967	2,863	7,676
Net Book Value at 31 March 2012	44,105	4,016	2,703	50,824
Net Book Value at 31 March 2013	43,555	4,106	2,737	50,398

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Tangible Fixed assets (Group and Museum) (continued)

Following the completion of the redevelopment of Fort Nelson, a full valuation on the basis of depreciated replacement cost was carried out by Rushton International, RICS qualified asset valuers, in January 2012, deemed valid as at 31 March 2012. The building will be depreciated over a 29-year period & plant and machinery over a 14-year period.

A full valuation of the Leeds Museum building on the basis of depreciated replacement cost was carried out by Rushton International as at 31 March 2009. Following this valuation the building will be depreciated over a 48-year period & plant and machinery over a 17-year period.

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 National Firearms Centre. The NFC has also been valued on the basis of depreciated replacement cost by Rushton International as at 31 March 2009 with the building being depreciated over a 47-year period & plant and machinery over a 27-year period.

A full valuation on all fixtures and fittings was also carried out by Rushton International as at 31 March 2006. The values thereafter have been adjusted using indices issued by the Office for National Statistics.

9. Heritage Fixed Assets (Group and Museum)

	Armour and Weapons £000	Works of Art £000	Archive £000	Total £000
Cost or valuation as at 1 April 2012	2,011	35	60	2,106
Additions	266	-	-	266
Cost or valuation as at 31 March 2013	2,277	35	60	2,372
Cost	1,521	35	60	1,616
Valuation	756	-	-	756
Total	2,277	35	60	2,372

There have been no disposals of heritage assets during 2012/13.

The collection comprises 367 pieces of armour or weapons, 5 works of art and 10 sets of archive material that were either acquired or donated since 2001. This represents a very small part of the overall collection which is detailed further in note 11.

Significant additions at cost in 2012/13 include the following:

- An extremely rare pair of Italian (Milanese) "Alla Tedesca" Gothic Pauldrons, with pointillé decoration, attributed to Francesco de Cattanaï, Late 15th Century. £25,000
- Cased pair of flintlock pistols, circa 1812, by brothers Benjamin & Jeremiah (B&J) Cooper of No.19 Partition Street, New York, USA. £20,000
- Flintlock pistols, an extremely rare pair of silver mounted flintlock pistols made at the Lucknow Arsenal, India, under Major, later General, Claud Martin around 1785. £14,000
- Two rare North Italian Gothic vambraces, circa 1430-40. £30,868
- A fine and rare 40-bore South German wheellock belt pistol, circa 1560, decorated with traditional bone plaques inset into a fruitwood stock and with a gilt lockplate and wheel, from the Count Gayeski collection, Mgowo, Poland. £36,000
- A rare, possibly unique gold-plated pencil-pistol, Indian, Jodhpur, made 1948, .22 in calibre. Constructed to a design by H.H., the late Maharaja of Jodhpur in the form of a writing instrument. £15,925
- Pattern 1776 Rifle, English, made 1776 By Matthias Barker & John Whately, first rifle issued to British troops. £45,000

There were no donations in 2012/13.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Five year financial summary of heritage asset transactions

	2012/13 £000	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000
<u>Purchases</u>					
Armour and weapons	266	59	66	52	37
Works of art	-	-	-	-	-
Archive	-	12	10	15	5
<u>Donations</u>					
Armour and weapons	-	104	9	23	160
Works of art	-	-	-	-	-
Archive	-	-	-	-	-
Total	266	175	85	90	202

11. Further information on museum collection of heritage assets

The collection of heritage assets is broken down into three sections: armour and weapons, works of art and archives.

The collection is preserved at three sites across the United Kingdom; the Tower of London, the head office and main museum in Leeds and at the Museum of Artillery at Fort Nelson near Portsmouth. In addition, many objects are loaned to exhibitions and long term displays nationally and internationally. A display of around 300 objects occupies a dedicated floor at the Frazier History Museum in Louisville, Kentucky, USA.

Upon acquisition, items are assigned a unique reference number and this, together with details on the provenance, location, valuation, conservation history, academic and other general information, is recorded on the collection management database.

Armour and weapons

The core collection was founded on the arsenal of the British army preserved in the Tower of London, augmented by Royal arms and armour brought into the Tower in 1649 and by purchases, gifts and other forms of acquisition since 1831. The core collection comprises 10,000 pieces of armour and 42,000 weapons, ranging from the Neolithic period to the present day from across the globe.

Fort Nelson in Portsmouth houses that part of the national artillery collection not held by the Royal Collection, the Royal Artillery Collection or on loan to other institutions.

The National Firearms Centre contains a collection of 14,000 weapons which were initially formed by the Ministry of Defence Pattern Room in Enfield and latterly the Royal Ordnance Factory in Nottingham. This collection was gifted to the Royal Armouries by the Ministry of Defence in 2005.

The NFC collection services the User Group identified by the MOD and comprises the Police, UK Border Agency, HM Revenue and Customs and various military and forensic organisations.

Approximately 2,000 pieces of armour are on display with 500 on loan; 5,500 weapons are on display with 2,000 on loan. The remainder is available to the public in the museums study collections.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Further information on museum collection of heritage assets (continued)

Archive

The archives contain some 20 or so major collections, including those of the previous Master of the Armouries, Sir James Mann, and the Royal Small Arms Factory, Enfield, as well as some 900 individual documents, many relating to the history of the Tower of London and its institutions, and including maps and plans, early photographs and stereographs.

Heritage assets of particular importance

Some of the objects are of exceptional international importance including four of the six surviving personal armours of Henry VIII, the armours of Charles I, Charles II and James II, all of which have been in the collection since the time of their original owners in the 16th and 17th centuries.

Among many important artillery pieces on display at Fort Nelson are two remarkable examples: a huge bronze bombard cast in two parts and weighing a total of 20 tons, made in 1464 for the Turkish Sultan Mehmet II, and a mid 15th Century wrought iron gun, probably made in England and now known as the Boxted Bombard, one of very few guns of this period surviving in Europe today.

The National Firearms Centre holds many pieces which are of considerable historical and technological importance. These include the first production example of what in World War I would become the famous, or infamous, Maxim machine gun made at the Royal Small Arms Factory, Enfield, in the early 1890s, serial number 1.

There is also a collection of 'sealed pattern' weapons, each produced to act as the exact model against which all other examples of that particular firearm, which could be made in the tens of thousands, were to be judged.

There is also a unique set of manufacturing gauges used at the Royal Small Arms Factory in the production of the Pattern 1853 Enfield percussion rifled musket. The manufacture by machine of all the components of this rifle represented a breakthrough in mass production technology and was a watershed in achieving the creation of complex objects from truly interchangeable parts.

The library holds a small number of medieval manuscripts, including the earliest known fencing manual, a medieval firework book, and two manuscripts relating to the tournament, as well as special collections of early print books on fencing manuals, and military manuals and drill books.

Further information regarding iconic pieces of the collection is available on the Royal Armouries website.

Preservation and management

The core collection is managed by a team of specialist curators and registrars who control the collection in accordance with policies approved by the Board of Trustees. The condition of the collection is maintained by a dedicated team of specialist conservators. Both groups report to the Interim Head of Collections & Research. Further information on the preservation and management of the collection, including the detailed conservation policy, is available on the Royal Armouries website.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Further information on museum collection of heritage assets (continued)

The NFC has its own dedicated team of curators and an artificer who report to the Head of the NFC.

The archive is managed by the archivist, who is also in charge of the library and photographic archive, and reports to the Interim Head of Collections & Research.

Collection Management Database

2012 saw work continuing on the project to replace the Royal Armouries' current system with tenders sent out and site visits made. Temporary resource continues to assist in cleansing incorrect data and the input of missing data in advance of population onto the new system.

12. Investments

	Group	
	2012/13 £000	2011/12 £000
Investments as at 1 April	128	398
Additions	136	159
Disposals	(129)	(433)
(Loss) / gain in value	4	4
Investments as at 31 March	139	128

The investments comprise government stock, fixed interest bonds and funds. All are held within the Royal Armouries Development Trust

Subsequent to initial recognition these assets are recorded at fair value, with any realised and unrealised gains and losses reflected in the Statement of Financial Activities.

13. Investments in subsidiary

The museum owns 100% of the issued share capital of Royal Armouries Trading & Enterprises Ltd.

Royal Armouries Trading & Enterprises Ltd has capital consisting of 150,000 £1 shares all of which have been issued at par. The share issue occurred on 29 July 2010 and became fully paid up on 29 March 2011.

14. Stocks

	Group	
	2012/13 £000	2011/12 £000
Stocks valued at cost	58	70
Less: provisions for publications and other slow moving stocks	(3)	(8)
	55	62

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Debtors

	Group	
	2012/13 £000	2011/12 £000
Trade debtors	98	102
Other debtors	190	233
VAT recoverable	169	273
Prepayments and accrued income	124	287
Provision for bad debts	(5)	(76)
	576	819

	Museum	
	2012/13 £000	2011/12 £000
Trade debtors	78	-
Other debtors	189	233
Gift aid due from Royal Armouries Trading & Enterprises Ltd	-	37
Other amounts due from Royal Armouries Trading & Enterprises Ltd	90	105
VAT recoverable	175	275
Prepayments and accrued income	120	184
Provision for bad debts	(1)	(1)
	651	833

Group debtors include a balance of £169k with HM Revenue & Customs. There are no other material balances with the Whole of Government Accounts bodies at 31 March 2013.

16. Creditors: amounts falling due within one year

	Group	
	2012/13 £000	2011/12 £000
Trade creditors	1	6
Income tax and Social Security	135	126
Other creditors	132	852
Grants	885	464
Accruals and deferred income	1,480	660
	2,633	2,108

	Museum	
	2012/13 £000	2011/12 £000
Trade creditors	1	-
Income tax and Social Security	135	126
Other creditors	109	844
Grants	885	444
Accruals and deferred income	1,404	631
	2,534	2,045

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Creditors: amounts falling due within one year (continued)

Group creditors include a balance of £83k with HM Revenue & Customs and £52k with the Cabinet Office. There are no other material balances with the Whole of Government Accounts bodies at 31 March 2013.

17. Provisions for Liabilities and Charges (Group and Museum)

	Redundancy £000	Early Retirement £000	Total £000
Balance as at 1 April 2012	-	125	125
Charge for the year	65	-	65
Utilisation of provision	-	(31)	(31)
Balances as at 31 March 2013	65	94	159
Liability due within one year	65	31	96
Liability due after one year	-	63	63

The early retirement provision reflects ongoing costs for those employees aged over 50 previously made redundant. The final charge against this provision will be in the year to March 2018 and as the time value of money is not material the values are not discounted.

18. Contingent Liabilities (Group and Museum)

There were no contingent liabilities as at 31 March 2013.

19. Capital Commitments (Group and Museum)

	2012/13 £000	2011/12 £000
Capital expenditure contracted but not provided for in the accounts	215	-
Capital expenditure authorised but not contracted for	300	610

The expenditure contracted but not provided for commitments relates to contracts awarded for the build work on the Line of Kings project in the White Tower at the Tower of London due to be undertaken between April and June 2013.

The authorised not contracted commitments relate to the new collection management database.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. Analysis of group net assets between funds

	Group		Restricted funds £000	Total £000
	Unrestricted funds			
	General £000	Designated £000		
Funds balances as 31 March 2013 are represented by:				
Intangible fixed assets	-	31	-	31
Tangible fixed assets	-	4,617	45,781	50,398
Heritage fixed assets	-	-	2,372	2,372
Investments	-	-	139	139
Current assets	3,330	273	55	3,658
Current liabilities	(2,611)	-	(22)	(2,633)
Provisions for Charges & Liabilities	(159)	-	-	(159)
Total net assets	560	4,921	48,325	53,806

	Museum		Restricted funds £000	Total £000
	Unrestricted funds			
	General £000	Designated £000		
Funds balances as 31 March 2013 are represented by:				
Intangible fixed assets	-	31	-	31
Tangible fixed assets	-	4,617	45,781	50,398
Heritage fixed assets	-	-	2,372	2,372
Investments	150	-	-	150
Current assets	3,191	273	-	3,464
Current liabilities	(2,534)	-	-	(2,534)
Provision for Charges & Liabilities	(159)	-	-	(159)
Total net assets	648	4,921	48,153	53,722

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Statement of funds

	1 April 2012	Income	Expenditure	Group Revaluation	Transfers	31 March 2013 £000
	£000	£000	£000	£000	£000	
Unrestricted funds						
General fund	763	8,736	(8,837)	-	(102)	560
Designated fund	4,589	1,272	(756)	85	(269)	4,921
Total unrestricted funds	5,352	10,008	(9,593)	85	(371)	5,481
Restricted funds						
Land and Buildings	36,726	-	(913)	-	105	35,918
National Firearms Centre	1,396	-	(44)	-	-	1,352
Sponsorship and						
Donations	3,726	126	(117)	-	-	3,735
Heritage Assets	1,350	-	-	-	266	1,616
Donated Assets	756	-	-	-	-	756
Revaluation Reserve	4,342	-	-	434	-	4,776
RADT	168	4	(4)	4	-	172
Total restricted funds	48,464	130	(1,078)	438	371	48,325
Total funds	53,816	10,138	(10,671)	523	-	53,806

	1 April 2012	Income	Expenditure	Museum Revaluation	Transfers	31 March 2013 £000
	£000	£000	£000	£000	£000	
Unrestricted funds						
General fund	763	8,736	(8,749)	-	(102)	648
Designated fund	4,589	1,272	(756)	85	(269)	4,921
Total unrestricted funds	5,352	10,008	(9,505)	85	(371)	5,569
Restricted funds						
Land and Buildings	36,726	-	(913)	-	105	35,918
National Firearms Centre	1,396	-	(44)	-	-	1,352
Sponsorship and						
Donations	3,726	126	(117)	-	-	3,735
Heritage Assets	1,350	-	-	-	266	1,616
Donated Assets	756	-	-	-	-	756
Revaluation Reserve	4,342	-	-	434	-	4,776
Total restricted funds	48,296	126	(1,074)	434	371	48,153
Total funds	53,648	10,134	10,579	519	-	53,722

The use of restricted funds is restricted to specific purposes by conditions imposed by the providers of the funds or the nature of the 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.

The Designated fund is a fund which the Board of Trustees of the Royal Armouries has designated as being allocated to finance capital expenditure other than that associated with the Land and Buildings.

The Royal Armouries Development Trust restricted fund is available for the promotion and furtherance of any of the Royal Armouries' charitable purposes as the Trustees, with the consent of the Royal Armouries' Board of Trustees think fit.

The transfers between reserves reflect where there has been expenditure from one reserve on capital assets that by their nature need form part of a different reserve. £102k was transferred from the general reserve to the designated reserve to reflect expenditure on plant and machinery. £371k was transferred from the designated reserve to restricted reserves to reflect the expenditure of designated Grant-in-Aid on land and building and heritage assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. Cash flow information (Group)

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

	2012/13 £000	Restated 2011/12 £000
Net outgoing resources	(533)	(809)
Interest receivable	(11)	(14)
Depreciation	1,802	1,554
Disposal of fixed assets	3	139
Disposal of investments	129	433
Asset impairment	-	681
Decrease in stocks	7	-
Decrease in debtors	243	1,121
Increase/ (decrease) in creditors	525	(777)
Provision for Liabilities & Charges	34	(129)
Net cash inflow from operating activities	<u>2,199</u>	<u>2,199</u>

b) Analysis of cash flows

	2012/13 £000	2011/12 £000
Returns on investment and servicing of finance		
Interest received	11	14
Net cash inflow for returns on investment and servicing of finance	<u>11</u>	<u>14</u>

Capital expenditure and financial investment

Intangible fixed assets	(5)	(26)
Tangible fixed assets	(828)	(1,750)
Heritage fixed assets	(266)	(175)
Investments	(136)	(159)
Net cash outflow from capital expenditure and financial investment	<u>(1,235)</u>	<u>(2,110)</u>

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

	2012/13 £000	2011/12 £000
Increase in cash in the period	975	103
Increase in net funds in the period	975	103
Net funds at 1 April	2,052	1,949
Net funds at 31 March	<u>3,027</u>	<u>2,052</u>

d) Analysis of net funds

	1 April 2012	Cash flow in period	31 March 2013
	£000	£000	£000
Cash	2,052	975	3,027
Net funds	<u>2,052</u>	<u>975</u>	<u>3,027</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. 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 no longer regards the Frazier History Museum as a related party as since May 2012 no member of the Royal Armouries board has sat on the board of the Frazier History Museum. There were no financial transactions associated with the Frazier History Museum during the year.

As a result of the Constable of the Tower of London sitting on the Royal Armouries board, Historic Royal Palaces is regarded as a related party. The following table highlights the financial transactions in the year together with the balances outstanding at the end of the financial year.

	2012/13 Income £000	2012/13 Costs £000	2012/13 Debtor £000	2012/13 Creditor £000
Historic Royal Palaces				
- Contribution to costs (£137k) and sponsorship.				
Costs relate to Tower entrance fees and our share of operating costs	137	31	44	10

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

24. Financial Instruments

Credit risk

The Royal Armouries has cash deposits of £3,027k (2011/12: £2,052k) which are held with National Westminster Bank Plc, part of the UK Government owned RBS. Royal Armouries has never suffered any loss in relation to cash held by its bankers. 64% of trade and other debtor balances are with related parties or organisations working closely with us so the risks are not regarded as material.

Liquidity risk

The Royal Armouries has no borrowings and relies primarily on DCMS grants for its cash requirements. Grant-in-Aid accounts for 86% of income (2011/12: 78%). This is further enhanced by the Trustee reserve policy which sets out the level of general reserve required as a minimum. They are therefore not exposed to liquidity risk.

Interest rate risk

The Royal Armouries draws down its annual Grant-in-Aid allocation according to its monthly cash flow requirements. Under 1% of overall incoming resources, £11k (2011/12 £14k) was generated from interest earned during 2012/13 so the Royal Armouries is not exposed to interest rate risk.

Foreign currency risk

All material assets and liabilities are denominated in sterling so they are not exposed to any currency risk.

Fair value

The balances shown on the Balance Sheet and in the notes to the accounts for fixed asset investments, short term deposits, receivables and payable have a maturity of less than one year and therefore it is assumed that the fair value of these is approximate to the book value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Financial Instruments (continued)

Financial assets and liabilities by category

	Group			
	Available for sale Financial Assets 2012/13 £000	Loans and Receivables 2012/13 £000	Other Financial Liabilities at amortised cost 2012/13 £000	Total 2012/13 £000
Fixed asset investments	139	-	-	139
Cash	-	3,027	-	3,027
Trade and other debtors	-	288	-	288
Trade and other payables	-	-	(2,498)	(2,498)
	<u>139</u>	<u>3,315</u>	<u>(2,498)</u>	<u>956</u>

	Group			
	Available for sale Financial Assets 2011/12 £000	Loans and Receivables 2011/12 £000	Other Financial liabilities as amortised cost 2011/12 £000	Total 2011/12 £000
Fixed asset investments	128	-	-	128
Cash	-	2,052	-	2,052
Trade and other debtors	-	425	-	425
Trade and other payables	-	-	(1,880)	(1,880)
	<u>128</u>	<u>2,477</u>	<u>(1,880)</u>	<u>725</u>

	Museum			
	Loans and Receivables 2012/13 £000	Other Financial Liabilities at amortised cost 2012/13 £000	Total 2012/13 £000	
Cash	2,813	-	2,813	
Trade and other debtors	357	-	357	
Trade and other payables	-	(2,399)	(2,399)	
	<u>3,170</u>	<u>(2,399)</u>	<u>771</u>	

	Museum			
	Loans and Receivables 2011/12 £000	Other Financial Liabilities at amortised cost 2011/12 £000	Total 2011/12 £000	
Cash	1,847	-	1,847	
Trade and other debtors	443	-	443	
Trade and other payables	-	(1,818)	(1,818)	
	<u>2,290</u>	<u>(1,818)</u>	<u>472</u>	

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Royal Armouries Development Trust

Registered Charity Number 803617

The Royal Armouries Development Trust is a charity connected to the Royal Armouries. It was established on 10 May 1990 to pursue such charitable purposes as the Trustees, with the consent of the Board of Trustees of the Royal Armouries, think fitting. The Development Trust solely supports the development of the Royal Armouries.

As a result of some Trustees sitting on both boards it is deemed there is common control and hence the Accounts are consolidated into the Royal Armouries' financial statements.

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

	2012/13 £000	2011/12 £000
Income and Expenditure Account		
Income	-	22
Administrative costs	(4)	(4)
Grant to Royal Armouries	-	(285)
Grant to the Arms and Armour Heritage Trust	-	(25)
Interest receivable	4	9
(Loss) / gain on investments	4	13
Surplus/(Deficit)	4	(270)
Balance Sheet		
Investments	139	128
Current assets	55	62
Creditors	(22)	(22)
Net Assets	172	168
Unrestricted reserves	154	150
Restricted reserves	18	18
Total Funds	172	168

The restricted fund relates to donations received to fund the developments at Fort Nelson.

26. Royal Armouries Trading & Enterprises Limited

The Royal Armouries owns all the issued share capital of 150,000 issued shares of £1 nominal value of Royal Armouries Trading & Enterprises Ltd, a company registered in England and Wales. The company's principal activities are retail, catering, sale of images and licensing and third party conservation works. The company commenced trading on 1 April 2011. The share issue occurred on 29 July 2010 and became fully paid up on 29 March 2011.

	2012/13 £000	2011/12 £000
Profit and Loss Account		
Turnover	936	845
Cost of sales	(531)	(280)
Gross profit	405	565
Administrative expenses	(493)	(528)
Operating (loss) / profit	(88)	37
Gift Aid payable to the Royal Armouries	-	(37)
LOSS FOR THE FINANCIAL YEAR	(88)	-

No salaries and wages have been paid to employees, including directors, during the year. Contracts for employment for the company's personnel are held by the Royal Armouries and the trading company incurs a management charge which includes personnel costs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. Royal Armouries Trading & Enterprises Limited (continued)

Segmental Analysis (2012/13)

	Leeds	Fort Nelson	Tower	Total
	£000	£000	£000	£000
Turnover	674	251	11	936
Cost of sales	<u>(404)</u>	<u>(110)</u>	<u>(17)</u>	<u>(531)</u>
Gross profit	270	141	(6)	405
Administrative expenses	(355)	(132)	(6)	(493)
Operating (Loss) / Profit	(85)	9	(12)	(88)
Gift Aid payable to the Royal Armouries	-	-	-	-
PROFIT FOR THE FINANCIAL YEAR	<u>(85)</u>	<u>9</u>	<u>(12)</u>	<u>(88)</u>

All income has been directly allocated to the relevant location and costs have been directly allocated to the location where known. All other costs have been apportioned on a split turnover.

Income from the trading company has been consolidated onto the Statement of Financial Activities on the trading activity, conservation, events and other operating income lines. Costs have been included in the cost of generating funds and the appropriate charitable activities.

	2012/13 £000	2011/12 £000
Balance Sheet		
Current assets	235	336
Creditors	(173)	(186)
Net Assets	<u>62</u>	<u>150</u>
Share Capital	150	150
Profit and Loss	(88)	-
Shareholder Funds	<u>62</u>	<u>150</u>

Creditors include £90k due to the parent charity for outstanding management charges.

27. Financial commitments (Group and Museum)

As at 31 March 2013 the Royal Armouries had annual commitments under non-cancellable operating leases as follows:

	Land £000	Other £000	2012/13 £000	2011/12 £000
Operating lease which expires within one year	-	7	7	3
Two to five years	-	5	5	16
More than five years	<u>371</u>	<u>-</u>	<u>371</u>	<u>371</u>
	<u>371</u>	<u>12</u>	<u>383</u>	<u>390</u>

28. Post Balance Sheet Events

The financial statements were authorised for issue by the Accounting Officer and Trustees on the date they were certified by the Comptroller and Auditor General.



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