

NATIONAL HERITAGE ACT 1983

Annual Report and Accounts of the Board of Trustees of the Royal Armouries for the year ended 31 March 2008, together with the report of the Comptroller and Auditor General thereon. Presented to Parliament pursuant to Sections 29(7) and 30(4) to Schedule 1 of the National Heritage Act 1983.

Order by the House of Commons to be printed on 6 November 2008

BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008

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TRUSTEES' AND ACCOUNTING OFFICER'S ANNUAL REPORT

INTRODUCTION

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

Legal Status

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

The Organisational Structure

The governing body is the Board of Trustees, which was established in 1984 in accordance with the National Heritage Act. Trustees are appointed by the Secretary of State 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 members are appointed on fixed terms of service and are non-executive and unpaid.

The role of the Board is to determine policies, establish overall strategic direction, monitor and review performance and appoint key managerial positions. The Board meets six times a year and is advised and supported by five sub-committees: the Finance and Capital Development Committee, the Audit Committee, the Knowledge

Committee, the Audience Development Committee and the Remuneration Committee.

Paul Evans, Chief Executive, was the nominated Accounting Officer for the Museum until 14 April 2008. He was suspended on 15 April 2008, pending the outcome of an internal investigation into potential irregularities. A full investigation was carried out by the Trustees into the potential irregularities and the Trustees are satisfied that there was no evidence of financial impropriety. Paul Evans resigned as Master of the Armouries and Chief Executive of the Royal Armouries on 30 September 2008, in accordance with his contractual terms.

Joan Jacobs, Administration Director was appointed as the nominated Accounting Officer on 15 April 2008 and is responsible for the overall organisation, management and staffing of the Museum and its procedures in financial and other matters, including conduct and discipline. The Accounting Officer is responsible to Parliament and to the Accounting Officer of DCMS for the resources under his control. The Chief Executive along with the Accounting Officer, two other Museum Directors – one responsible for Operations and one for Development and an Academic Director - make up the Royal Armouries Executive team. The Royal Armouries Executive is accountable to the Board of Trustees.

Staff Communications

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

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

Equal Opportunities

It is the Royal Armouries' policy that all individuals shall have equal opportunity for employment and advancement in the Royal Armouries on the basis of their ability, qualifications and relative merits. There must be 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 the Museum's employment practices.

Relationship between charity and related parties

The Royal Armouries is a Non Departmental Public Body whose parent body is DCMS. DCMS is regarded as a related party. Details of related party transactions are contained in note 21 to the Accounts.

REVIEW OF PERFORMANCE DURING THE YEAR

Visitor Experience

Leeds

'The most horrible day out in history' might sound like no fun but its clearly irreverent tone was a big pull and drew in record numbers of visitors at Leeds'.

The exhibition focussed on the popular children's books written by Terry Deary and read by millions of children across the country. The exhibition was linked to a series of events designed to encourage participation and literacy. Royal Armouries partnership with Scholastic Books used the temporary display space on the fifth floor for an exhibition of "history with the horrible bits left in" and pulled in the visitors throughout the summer.

A partnership with the Carnegie Centre of Art and History formed the basis of another temporary exhibition generously supported by the Heritage Lottery Fund. The story of the underground railroad and the emancipation of slaves was told through a display of stunning quilts.

An interactive exhibition on the Froissart manuscripts involved a successful collaboration with Professor Peter Ainsworth and Christopher Rust from the University of Sheffield.

Fort Nelson

Visitor numbers in 2007/08 at Fort Nelson were 83,930, up from 75,800 the previous year. Children's activity days held every Tuesday and Thursday during all school holidays were the biggest success, attracting average daily visitor numbers of 974, an increase of 30%.

An extensive programme of innovative and interactive public special events brought the Fort Nelson Collection to life. Highlights included an Easter recreation of 1940-41

Portsmouth and South Hampshire blitz which involved a Messerschmitt fighter raid on the Fort that was repulsed by a full battery of anti-aircraft guns.

Simon Weston was guest of honour at the Royal Armouries annual Tattoo, which saluted the memory of the Falklands War on its 25th anniversary, supported by HM Royal Marines Band, Portsmouth, playing in front of more than 3000 visitors.

Tower of London

Building on the success of the displays in Leeds the Tower of London opened a new 'Hands on History' display which enabled visitors to touch and feel replica arms and armour. More than two million visitors from all over the world visited the White Tower and enjoyed this unique experience. Supported by the History Channel and the Royal Mint the second phase of this initiative has begun in preparation for a full launch in July 2008.

Redevelopment

Leeds

Redevelopment was ongoing throughout the Museum during 2007/08 with two new permanent installations in the War Gallery - the Great Rebellion and the Hesco Observation Point.

The Great Rebellion display was created to commemorate the 150th anniversary of the India Mutiny and to challenge the stereotypical imagery of the period, by utilising the latest research on this challenging period. The Mutiny's themes of racial and religious bigotry have enormous contemporary relevance and through the exhibition Royal Armouries sought to identify ways in which such conflicts could be resolved. The project involved working with community groups such as AimHigher (Education Leeds) and Monkey in Heaven Films.

Aiming for a more interactive experience, the new Observation area immerses the visitor into a modern day field of conflict. The display supported by local manufacturer Hesco Bastion, uses up-to-date materials recognisable from any current TV news report.

The redevelopment of the main atrium has transformed the visitors' first impression of the Museum and helped them plan their visit more effectively. Covering all five floors and the length of the Museum 'the Street' has seen a complete modernisation. The

architects for this project were appointed following a national competition organised by the Royal Institute of British Architects.

Fort Nelson

During 2007/08 Royal Armouries submitted a successful Stage 1 bid to the Heritage Lottery Fund for £2 million to be matched by £1.5 million from the Armouries and its sponsors. Building is forecast to begin in 2009 and be completed in the first half of 2010 with the Fort remaining open to the public through this period.

EDUCATION

Children are a particular focus for the Royal Armouries Education team with innovative and expanding programmes in place across all three sites.

Leeds

Five Children's Centres based in deprived areas of Leeds benefited from the innovative Early Years project while outreach programmes were targeted at young people with long-term illnesses at Leeds General Infirmary and St James's Hospital. The Team also worked with the National Association of Gifted and Talented Youth through the Medieval Studies Department at Leeds University.

The 'Golden Ticket' initiative provided children on Holiday Play Schemes with a fabulous day out at the Royal Armouries. Every aspect of the day was planned by the Education Team, from the transport to the innovative activities undertaken by the children throughout the day. The project gave young people the opportunity to see the Museum as the exciting and engaging place it is.

Fort Nelson

Mainstream schools and outreach programmes at Fort Nelson have benefited from an improving Education service. The key strengths of this unique site are utilised to full advantage in new focused activity days that enable pupils to study the Victorian, WWI and WWII sections of the National Curriculum in detail, and for them to appreciate what it was like to live and work at a fort during a time of potential invasion. These specific programmes are for pupils in Key Stages 1-3.

Tower of London

The 'Bayer Visionworks Learning Zone' has been an outstanding success as science education continues to be an increasingly important focus for the Tower of London. Almost 1000 children were offered free places at hands-on scientific experiments programmes. The programmes have been expanded to include pupils at all key stages and developed to include new sessions based around Sports Science. The continued support of Bayer, including a uniquely designed laboratory, means that this project is secure for the next three years.

Homeless artists are currently displaying their work on the top floor of the White Tower while 'A' level days have been a great success and an excellent example of Historic Royal Palaces and Royal Armouries working together to deliver a seamless service.

World Class Collection

Underpinning everything that the Royal Armouries does, our work with visitors and our education programme, is the quality of our world-class collection and the staff who look after it.

Major Acquisitions 2007/08

- Silver mounted flintlock sporting gun by Henry Crisp for presentation by Lord Dartmouth, London 1688.
- Dagger with German Solingen blade dated 1625 and Japanese mounting of the Edo period.
- Group of three medals to Viscount Lord Dillon, first curator of the Tower Armouries.
- Pepper spray gun, Garrett's patent, English about 1896.

In January 2008 the Museum, with the assistance of The Art Fund and the National Heritage Memorial Fund, was able to save for the Nation a finely decorated flintlock sporting gun. The gun was commissioned by George Legg, 1st Baron Dartmouth, from Henry Crisp, gunmaker to the Ordnance and Furbisher at the Tower of London, and was completed in 1688. Legg was Constable of the Tower of London and Master General of the Ordnance, and was one of the most influential figures in England at the time. However, after the Glorious Revolution he was deprived of his positions, and imprisoned in the Tower, where he died in 1691.

Royal Armouries' Curators gave lectures throughout the year including an evening lecture in Louisville, Kentucky, USA which was attended by friends of the International History Museum. The curatorial team also carried out work on the displays in Louisville, helped train their staff and assisted in the identification and cataloguing of the Van Male collection.

Six 'Hands on History' seminars were organised covering such diverse subjects as pattern welding and the Napoleonic Wars. On 1st and 2nd March 2008 the Royal Armouries in Leeds hosted the annual Symposium on Western Arts and Swordsmanship. The event brought together fencing masters and pupils from all over Europe and North America, and in addition to the workshops the Museum organized supervised handling sessions of objects from the research collections.

Recognition of their expertise came from the media as they participated on numerous occasions including documentaries on William Marshall for the BBC's Time watch and Ancient Discoveries for the Discovery Channel.

A 'Guide to Japanese Swords' by Ian Bottomley, sponsored by Japan Airlines and Volume 5 of the 'Arms and Armour Journal' were both published in March 2008. Thom Richardson completed a three week project to catalogue the South Asian collection at the Fitzwilliam Museum, Cambridge.

The Conservation Team continues to monitor the collection for concentric ring Corrosion and improved their plans for dealing with disasters, particular flooding. A contract with Derby City Council Museums and Galleries for work on their 'Soldiers Story' gallery generated income for the department.

A number of loans were made from the Royal Armouries collection throughout the year. The major ones were to Jamestown, USA for the 400th anniversary of the founding of the first permanent English Settlement in North America and a loan of objects to the National Museums and Galleries, Wales.

Community

No to Knives

No to Knives (NTK) was launched to VIPs and the media at the Tower of London in 2007 and the campaign has seen the Museum become an active organizer and support of

several projects and events aiming to help young people acquire the skills to keep them safe.

By raising young people's awareness of the dangers of possessing and using knives the campaign encourages them to make a personal pledge not to carry a knife. The campaign was rolled out throughout the year using our website, newsletter, pledge cards, wristbands, t-shirts and an events programme.

'Tackling Knife Crime: the truth behind the headlines' was a forum organized at the Royal Armouries in October 2007 with speakers including Hilary Benn MP, Ann Oakes-Odger of the Westley Odger Trust and Superintendent Peter Nicholson of the West Yorkshire Police. More than 50 representatives from community organizations that deal with young people and weapons crime attended the event.

Young people from Leeds on a final warning for carrying a weapon come to the Museum once a month for a session of the 'Weapons Awareness Programme' while groups such as REACH (excluded pupils) come to the Museum as part of the weapons awareness studies. Co-ordination of the Weapons Awareness Programme was handed over to the Royal Armouries by CASAC in December 2007.

Five High Schools in Leeds sent pupils to the 'Flashpoint Conflict Resolution Project': a five day course created by the Museum to help young people develop their skills for dealing with everyday conflict situations.

KICK (Karate for Inner City Kids) was launched at the Museum in September 2007. It aims to improve the lives of young people in line with the five outcomes of 'Every Child Matters'. Pupils are encouraged to resolve conflict productively, avoid participating in gangs, choose drug-free lifestyles and remain in education. A pilot scheme of a 12 sessions course for two High Schools in Leeds proved very successful.

Fundraising

The Royal Armouries continued to develop strong and on going partnerships with funders and sponsors. The Museum raised over £500k in 2007/08 from a variety of sources (see List of sponsors and donors on page 17). Its future fundraising strategy over the next year will be to focus on securing the £1.5m matched funding required for Fort Nelson's redevelopment and in conjunction with Historic Royal Palaces to secure corporate sponsorship for the forthcoming exhibition at the Tower of London: Henry VIII: Dressed to Kill.

Royal Armouries' Future Plans

Arms and Armour from the Movies: The wonderful world of Weta

Some of Hollywood's biggest blockbusters of the past decade have sparked a renaissance of interest in the design and craftsmanship behind medieval weapons and armour. The Lord of the Rings film trilogy and the Chronicles of Narnia film used incredibly detailed weapons and armour which were inspired by many of the objects on display at the Royal Armouries.

During the summer of 2008 the Royal Armouries welcomed to Leeds 'Arms and Armour of the Movies: The wonderful world of Weta', a stunning exhibition of the skill and craftsmanship of the multi-award winning Weta Workshop. The exhibition features over 200 iconic props from *The Lord of the Rings trilogy*; *The Chronicles of Narnia*; *The Lion, The Witch and The Wardrobe*; *The Last Samurai*; *King Kong* and *Hellboy*.

The exhibits have been specially selected to show both the practical considerations and the sheer attention to detail which has gone into every single object. The exhibition gives visitors the chance to examine these objects close up, when otherwise they would usually only be seen fleetingly in action scenes,

Henry VIII: Dressed to Kill

2009 marks the 500th anniversary of King Henry VIII's accession to the English throne. The Royal Armouries together with Historic Royal Palaces will celebrate this most radical of kings with '*Henry VIII: Dressed to Kill*', a spectacular exhibition of his armour and weapons. Throughout his life, arms and armour were central to Henry VIII's existence, both as an individual and monarch as he moved England towards a greater role on the European (and eventually world) stage. This will be the most important exhibition of Henry's (or any monarch's) armour of recent times and, arguably, of modern times, which will take place in the Palace and Fortress where it all began, HM Tower of London – truly, 'history where it happened'.

This is a unique collaboration between the Royal Armouries and Historic Royal Palaces and will be the 'must see' exhibition of 2009. *Henry VIII: Dressed to Kill* is just the first stage in an ambitious and exciting strategy to redevelop the White Tower, building up to 2012 and the Queen's Diamond Jubilee.

Development of Fort Nelson

Fort Nelson is a unique Victorian Fort and home of the Royal Armouries' collection of artillery – one of the finest and largest collections historic cannon in the world. The exciting new redevelopment will dramatically improve the visitor experience as well as improve other aspects including access, interpretation, learning and conservation. The future re-development will centre on three key areas: the *Visitor Centre*, the *Orienteur* and the *Classroom of the future*.

At the heart of the entire development is a new structure – the *Orienteur* (Pathfinder). This glass-sided structure will provide a superb and imposing vista of the Fort on approach and will become the focal point for all visitors by providing vital introductory information to Fort Nelson and its collection, as well as providing environmentally stable display conditions and dramatically improving access for all.

A new 'Classroom of the Future' will be created with up-to-the-minute technology designed to provide the highest quality teaching and learning environment. It will create a flexible learning zone equipped with the latest mobile phone system based PDAs to engage users in a fresh and exciting way and allow them to maximize the potential of the 19 acre site on their visit and build on that visit either from home or the classroom.

PERFORMANCE AGAINST THE TARGETS IN 2007-08 FUNDING AGREEMENT

The Three Year Funding Agreement between the Museum and the Department for Culture, Media and Sport establishes 7 core targets for the Museum. 2007-08 was the final year of a three-year agreement. The targets for 2007-08 and the actual performance achieved against each of them are set out below.

Performance Indicator	2007-08 Target	2007-08 Outturn
Total number of visits	435,000	443,202
No of unique users visiting the website	220,000	389,836
Number of adult UK visitors (aged 16 and over) from NS-SEC groups 5-8 attending the Museum	44,000	42,103
Number of children aged 15 and under in on and off-site organised educational sessions	110,000	87,183
Number of children aged 15 and under visiting the Museum	170,000	181,007
Net income from trading (including corporate hire*)	£250,000	£210,000
Efficiency Savings	£786,000	£1,326,000

* Corporate hire is for Fort Nelson only as the concession for corporate and catering activities at Leeds is held by Royal Armouries (International) plc.

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 on page 33.

In 2007-08 the Royal Armouries recorded an operating shortfall of £327k; this is made up of a £307k Museum shortfall and a £20k Royal Armouries Development Trust deficit in the year.

The Museum's Statement of Financial Activities (SOFA) is set out on page 33 of this document. Incoming resources for the period amounted to £10,886k which included government grants amounting to £8,917k, resources expended amounted to £11,945k, resulting in a net outgoing resources of £1,059k (before notional costs and revaluations). £1,800k was attributable to depreciation provisions and financed from the capital project income credited to designated and restricted funds in previous years.

Visitor levels to the Museum during 2007-08 were higher than budgeted however commercial income was lower as a result of reduced retail opportunities at the Tower. 2006-07 saw a number of events held to celebrate the 10th anniversary of our opening in Leeds partially explaining the reduced level of income in 2007-08. Funding of capital projects drove sponsorship and donations from £129k in 2006-07 to £529k in 2007-08. Contributions to costs of £141k were received from Historic Royal Palaces.

Total resources expended included salaries and related employee costs of £5,773k, this was £801k higher than 2006-07 and contained £528k redundancy costs and £356k provision for early retirement costs. Salary expenditure accounted for 48.3% of operational cost and depreciation at £1,800k for 15.1%.

Balance Sheet

Of the fund balances at 31 March 2008:

- restricted funds, subject to specific restriction by the providers of the funds, amounted to £50,176k, the opening position has been restated to correct reserves incorrectly classed as designated (2006-07: £47,685k);
- designated funds, set aside to finance tangible fixed assets other than those classed as restricted, amounted to £5,634k, the opening position has been reduced to correct reserves incorrectly classed as designated (2006-07: £5,766k); and
- the surplus on general unrestricted funds available for use in furtherance of the general objectives of the Museum, amounted to £281k, the opening balance has been amended to reflect provision for early retirement charges (2006-07: £608k).

Full disclosure of the prior year adjustments is contained within note 24 to the accounts.

By virtue of the National Heritage Act 1983, the Museum was vested with the property and objects, which formed part of the collection of arms and armour, or were associated with the maintenance or administration of the collection. The value of the collection was not identified in the records passing into the Museum's ownership. In accordance with the Financial Reporting Manual, additions to the collection since 1 April 2001 are capitalized and recognized in the Balance Sheet, at the cost or value of the acquisition. Such items are not depreciated or revalued as a matter of routine. Acquisitions to the value of £234k were capitalized in 2007-08.

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

Reserves Policy

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

Although Grant in Aid accounts for around 82% of its income, which provides limited exposure to liquidity risk, the remainder of operational costs must be financed by self-generated income, which is volatile. The risk is managed through the Museum's policy to ensure that the level of reserves provides a comfort level for shortfall in income and to underpin cash-flow and budgetary risks particularly arising from capital expenditure projects.

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

Although the Museum's total reserves at 31 March 2008 are shown as £56.1 million on its balance sheet, all but £281k is tied up in restricted funds: buildings, galleries, plant, fixtures and fittings and the Royal Armouries Development Trust Fund, none of which can be used for other purposes.

Payment of Creditors

The Museum continues to review the efficiency of its operations and aims to comply with best practice wherever possible. The Royal Armouries adheres to the Government-wide standard on the payment of creditors, by aiming to settle all bills within 30 days or in accordance with the suppliers' terms of business. In 2007-08, the Royal Armouries paid approximately 90% (2006-07: 90%) of supplier invoices within the target of 30 days.

ROYAL ARMOURIES DEVELOPMENT TRUST

Registered Charity Number 803617

The Royal Armouries Development Trust is a charity connected to the Museum. It was established on 10 May 1990 to pursue such charitable purposes as the Trustees, with the consent of the Board of Trustees of the Royal Armouries, think fitting. The Development Trust solely supports the development of the Royal Armouries and this is the premise upon which consolidation into the Royal Armouries financial statements has been made.

Income during 2007-08 was £7,065 (2006-07: £7,706). Expenditure amounted to £27,178 (2006-07: £14,301) decreasing the reserves by £20,113. Overall net assets at 31 March 2008 were £116,148 (2006-07: £136,379). The accounts of the Royal Armouries Development Trust have been consolidated with the accounts of the Board of Trustees of the Royal Armouries.

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

LIST OF SPONSORS AND DONORS

The Royal Armouries would like to thank the following for their generous support.

Arts & Business

Bayer MaterialScience

CASAC Partnership

Heritage Lottery Fund

HESCO Bastion

Japan Airlines

Magnet

Ministry of Defense

National Heritage Memorial Fund

National Physical Laboratory

News International

Panasonic

Royal Mint

The Art Fund

The History Channel

Universal AV Services Limited

University of Liverpool

Worshipful Company of Armourers & Brasiers

Worshipful Company of Founders

Worshipful Company of Goldsmiths

Worshipful Company of Horners

Worshipful Company of Tin Plate Workers

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

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

Museums Addresses

Principal Address

Royal Armouries
Armouries Drive
Leeds
Yorkshire
LS10 1LT
Email:
Web site: www.royalarmouries.org

Royal Armouries
Fort Nelson
Portsdown Road
Portsmouth
Hampshire
PO17 6AN

Royal Armouries
Tower of London
London
EC3N 4AB

Board of Trustees of Royal Armouries

The following persons were members of the Board of Trustees of the Royal Armouries in 2007-08 and served on the committees shown:

Chairman	Date of Appointment	Expiry of Appointment
Ann Green FCMI FRSA	10.11.98	26.04.11
Members		
Major General Sir Simon Cooper GCVO	01.08.04	16.07.12
General Sir Roger Wheeler GCB CBE	01.08.01	31.07.09
Bob Morton FCA	22.01.03	20.01.11
Francis Carnwath CBE	26.04.00	retired April 2007
Chris Oakley CBE	26.05.02	25.03.10
John Siddall MA(Oxon)	01.09.04	resigned Sept 2007
Patricia Langham BA MEd	04.11.04	03.11.08
Jon Hammond Booth	02.12.04	01.12.08
Marie Stevens	19.09.05	18.09.09
Professor Richard Holmes CBE TD JP	26.09.05	25.09.09
Duncan Wilson OBE	01.09.07	31.08.11

Trustee sub-committees

Sub- Committee	Chair	Members
Audit	Bob Morton	Ann Green, Marie Stevens
Finance	Bob Morton	Ann Green, Marie Stevens, John Siddall
Knowledge	Richard Holmes	Ann Green, Pat Langham Roger Wheeler
Audience	Marie Stevens	Ann Green, Jon Hammond Booth Chris Oakley
Remuneration	Ann Green	Bob Morton, Richard Holmes Marie Stevens

Methods adopted for recruitment and appointment of new trustees

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

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

Executive Committee

Paul Evans	Chief Executive
Joan Jacobs	Administration Director
Peter Armstrong	Museum Director - Development
Steve Burt	Museum Director – Operations
Graeme Rimer	Academic Director

List of Royal Armouries Advisors

External Auditors

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Internal Auditors

KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW

Auditors Royal Armouries Development Trust

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

Bankers

NatWest plc
Bishopsgate Business Centre
London
EC2P 2AP

Solicitors

Blake Laphorn Tarlo Lyons
Harbour Court
Compass Road North Harbour
Portsmouth
Hampshire
PO6 4ST

Queen Anne's Chambers
28 Broadway
London SW1H 9JS

Following a re-tender exercise a new firm of Solicitors was appointed with effect from 1 April 2008

Burges Salmon LLP
Narrow Quay House
Narrow Quay
Bristol
BS1 4AH

Statement as to Disclosure of Information to auditors

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

External auditors

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

Board approvals

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

Ann Green
Chairman

Dated 22 October 2008

Joan Jacobs
Accounting Officer

Dated 22 October 2008

Remuneration Report

Remuneration Committee

The membership of the Remuneration Committee is:

Ann Green (Chair)
Bob Morton
Marie Stevens
Richard Holmes

Policy on the Remuneration of Chief Executive and Directors

The Remuneration Committee reviews the salaries of the Chief Executive and Directors. At the beginning of each year the Chief Executive and Directors are set objectives based on the Museum's business plan. The Remuneration Committee on an annual basis assesses the performance of the Chief Executive and a pay award is made according to achievements against targets. The Chief Executive reviews the Directors performance and makes a recommendation to the Remuneration Committee on their salary levels. All pay depends on performance being delivered. Pay in 2007/08 consisted of salary and bonus payments; there were no other cash or non-cash benefits.

Policy on duration of contracts, notice periods and termination payments

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

Cash Equivalent Transfer Values

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

another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries. Please note that the factors used to calculate the CETV were revised on 1 April 2006 on the advice of the Scheme Actuary. The CETV figure for 31 March 2007 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for March 2008.

Real increase in CETV

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

The following information is covered by the audit certificate;

	Paul Evans		Peter Armstrong		Steve Burt		Joan Jacobs	
	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Remuneration	94	91	61	59	54	42	59	57
Bonus	6	9	4	-	4	-	4	-
Cash equivalent transfer value at 31 March	128	95	49	30	491	N/a	218	177
Real increase in cash equivalent transfer value	14	15	11	10	-3	N/a	12	13
Real increase in pension age 60	0-2.5	0-2.5	0-2.5	0-2.5	-0-2.5	N/a	0-2.5	0-2.5
Real increase in lump sum at age 60	2.5-5	2.5-5	N/a	N/a	N/a	N/a	0-2.5	0-2.5

Ann Green
Chairman

Dated 22 October 2008

Joan Jacobs
Accounting Officer

Dated 22 October 2008

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

Under section 29 of schedule 1 to the National Heritage Act 1983, the Board of Trustees of the Royal Armouries is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Culture, Media and Sport with the consent of HM Treasury. The accounts are prepared to show a true and fair view of the Board's financial activities during the year and its financial position at the end of the year.

In preparing the accounts, the Trustees are required to:

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

The Accounting Officer of the Department for Culture, Media and Sport designated the Chief Executive as the Accounting Officer for the Board up to 13th April 2008. From 14th April 2008 the Administration Director was designated as the Accounting Officer. The relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the public finances, for which they are answerable, and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by the Treasury and published in '*Managing Public Money*'

Ann Green
Chairman

Dated 22 October 2008

Joan Jacobs
Accounting Officer

Dated 22 October 2008

* A copy of which is available for the Royal Armouries, Armouries Drive, Leeds, LS10 1LT.

STATEMENT ON INTERNAL CONTROL – THE ROYAL ARMOURIES, 2007-08

Scope of responsibility

As Accounting Officer (designated as from 14 April 2008) I have responsibility for making sure that a sound system of internal control exists and is maintained and that it supports the achievement of the Royal Armouries' policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me under Managing Public Money and ensuring compliance with the requirements of the Royal Armouries' Management Statement and Financial Memorandum.

The Chair, on behalf of the Board, is responsible for ensuring that appropriate arrangements exist to implement and maintain the Royal Armouries' internal control framework. The Trustees, as a non-executive Board, are collectively responsible for the 'general management and control of the Museum including risk management'. The Board has delegated the responsibility for monitoring risk to its Audit Committee, who, along with the Royal Armouries' internal auditors advises the Accounting Officer and the Board on the adequacy of audit arrangements, risk management and internal control.

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Museum's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

Capacity to handle risk

The Royal Armouries has a risk management policy, which sets out the attitude to risk and responsibilities including those of the Chief Executive, Museum Directors, Managers

and staff. The Executive Committee has overall responsibility for risk management during the year.

The Executive Committee's role is to monitor, maintain and improve the general control environment operating within the Museum. The Committee, through risk management workshops, meets throughout the year to;

- formally review and assess the major strategic risks on the register
- identify the emergence of any new risks and evaluate the nature and extent of the risks,
- determine a control strategy for the key risks taking into consideration risk appetite, and to
- introduce new controls and/or improve existing controls to ensure all risks are mitigated.

In 2006/07 Royal Armouries established a Programme Board of key decision makers, including the Directors, to maintain effective reporting and control across all new mission critical projects. The Programme Board ensures that the risks inherent in any new venture are assessed and monitored throughout the duration of the project.

Risk management is an intrinsic part of the Royal Armouries' everyday decision making process and staff at all levels are involved with the process

The risk priorities in 2007/08 were:

- Securing ring-fenced funding from regional Heritage Lottery Fund for the redevelopment of Fort Nelson
- Manage the threat to funding levels posed by the 2007 Comprehensive Spending Reviews
- Managing visitors and visitor levels during the re-development of the main atrium
- Managing the risk of re-roofing the Leeds Museum.

The risk and control framework

The system of control is based on a framework of management processes including regular management information, administrative procedures and a system of delegation and accountability. Key controls of the system include:

- A three-year Funding Agreement with the Department for Culture, Media and Sport (DCMS), with key performance targets reviewed half yearly;

- Comprehensive budgeting systems with an annual budget, which is approved by the Board of Trustees and incorporated into the operational plan;
- Regular reviews by the Board of monthly and annual reports which indicate progress against key performance indicators;
- Regular reports from the Internal Auditors who give an independent and objective opinion on the Museum's internal control systems, corporate governance and risk management to the Audit Committee;
- The Finance and Capital Development Committee reviews the financial management of the Museum every two months through reports and long term plans;
- New developments are subject to approval by the Audience Development Committee;
- Monthly meetings of the Museum's Executive team monitor and review results against key performance and risk indicators;
- Annual completion of Assurance Statement by senior managers to confirm their compliance with Royal Armouries' internal control standards
- Register of Interests for Trustees and senior staff.

Review of effectiveness

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

The Museum used the services of KPMG to provide Internal Audit Services, operating to standards defined in the Government Internal Audit Standards. The annual audit plan is drawn up in conjunction with the Accounting Officer and approved by the Audit Committee. Internal Audit provides the Accounting Officer with reports on those systems identified in the annual internal audit plan and these are then presented to the Audit Committee. Such reports include the Internal Auditor's independent view on the adequacy and effectiveness of the Museum's system of internal control and progress against recommendations made in previous financial years. In 2007-08 the Internal Auditors reported on Procurement System, Asset Management System, Project Management and FOI. Internal Audit also undertook a follow-up review of issues raised in prior years. At the request of the Chair of the Audit Committee additional work was carried out focusing on Policies and Procedures.

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

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

I have been advised on the results of a review I commissioned by our internal auditors that the effectiveness of our system of internal control is in most areas adequate. In their opinion Royal Armouries has satisfactory arrangements in order to provide assurance over the effectiveness of risk management, control and governance. However, there has been a significant breakdown in control specifically relating to management, review, update and communication of policies and procedures, and compliance with procurement policy and procedures, and Travel and Subsistence policy and procedures during the year. I therefore plan to incorporate all the suggestions made by our internal auditors to ensure that there is continuous improvement to the systems already in place.

Arrangements were put in place in April 2008 to review, update and fill any gaps in Royal Armouries policies and procedures. A centrally managed system is under development for controlling policies and procedures which includes the following:

- A central database for all Royal Armouries policies and procedures
- Control and management of policies and procedures by the Company Administrator to ensure regular review, update and version control to maintain the integrity of the database
- Allocation of ownership of policies and procedures to an appropriate Senior Manager to ensure that policies are up to date, appropriate and where applicable conform to current legislation
- A system for training and communicating policies and procedures to ensure all staff are aware of and understand the content of Royal Armouries Policies and Procedure.
- Development of a series of electronic manuals which will be easily assessable by all staff

A qualified Procurement Officer has been recruited to provide advice and support on all purchasing activities to Directors, Senior Managers and Budget Holders. To develop

a range of relevant procurement documentation, provide procurement options to deliver value for money and to provided assurance that all procurement activities operate in accordance with Royal Armouries Policies and Procedures and EU legislation.

The Royal Armouries has suffered no protected personal data incidents during 2007-08 or prior years, and has made no reports to the Information Commissioner's office.

Joan Jacobs
Accounting Officer

Dated 22 October 2008

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

Ann Green
Chairman of the Board of Trustees

Dated 22 October 2008

The Board of Trustees of the Royal Armouries

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

I certify that I have audited the financial statements of the Royal Armouries for the year ended 31 March 2008 under the National Heritage Act 1983. These comprise the consolidated Statement of Financial Activities, the consolidated Balance Sheet, the Consolidated Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. 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, the Chief Executive and Auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Heritage Act 1983 and the Secretary of State for Culture Media and Sport's directions made thereunder. I report to you whether, in my opinion, the information which comprises the introduction and the financial review, given in the Trustees' and Accounting Officer's Annual Report is consistent with the financial statements. I also report whether in all material respects the incoming and outgoing resources funded by Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Royal Armouries has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This information comprises the review of performance during the year, performance against the targets in the 2007-08 funding agreement and the unaudited parts of the remuneration report included in the Trustees' and Accounting Officer's Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Board of Trustees and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Royal Armouries and the group's circumstances, consistently applied and adequately disclosed.

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

Opinions

Audit Opinion

In my opinion:

the financial statements give a true and fair view, in accordance with the National Heritage Act 1983 and directions made thereunder by the Secretary of State for Culture Media and Sport, of the state of Royal Armouries and the group's affairs as at 31 March 2008 and of its incoming resources and application of resources of the group for the year then ended;

the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the National Heritage Act 1983 and the Secretary of State for Culture Media and Sport's directions made thereunder; and

information, which comprises the Introduction and the financial review included within the Trustees' and Accounting Officer's Annual Report, is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr

National Audit Office

Comptroller and Auditor General

151 Buckingham Palace Road

Victoria, London, SW1W 9SS

Date 5 November 2008

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR
THE YEAR ENDED 31 MARCH 2008

	Notes	Unrestricted funds		Restricted funds	Total funds	Total funds
		General	Designated		2007-08	Restated 2006-07
		£000	£000	£000	£000	£000
Incoming resources						
Incoming Resources from generated funds						
Voluntary Income						
Grant-In-Aid	2	7862	599	456	8917	7814
Grant DCMS/Wolfson						97
Grant DCMS/DFES Strategic Commissioning						
Other voluntary income		45		484	529	129
Contributions to costs	3			141	141	100
Activities for generating funds						
Income from trading activities	15	656			656	670
Conservation Income		4			4	7
Investment income		51		4	55	24
Incoming resources from charitable activities						
Events Income		252			252	274
Educational Income		58			58	50
Other Operating Income		169		105	274	186
Other Incoming Resources						
Compensation for Roof						461
Total incoming resources		9097	599	1190	10886	9812
Resources expended						
Costs of generating funds						
Costs of generating voluntary income	4	(149)		(26)	(175)	(202)
Fundraising trading: costs of goods and services	4	(910)	(25)	(45)	(980)	(978)
Charitable activities						
Care of the collection	4	(2011)	(202)	(464)	(2677)	(2695)
Education	4	(1100)	(57)	(101)	(1258)	(982)
Visitor Experience	4	(4333)	(527)	(1073)	(5933)	(5428)
Governance costs	4	(86)		(1)	(87)	(81)
Other Outgoing Resources						
Redundancy/Early Retirement	4	(835)			(835)	(116)
Total resources expended before notional costs		(9424)	(811)	(1710)	(11945)	(10482)
Notional incoming/(outgoing) resources before notional costs		(327)	(212)	(520)	(1059)	(670)
Notional cost of capital	6	(16)	(193)	(1658)	(1867)	(1788)
Gain on revaluation of assets			233	3052	3285	3447
		(343)	(172)	874	359	989
Reversal of notional costs		16	193	1658	1867	1788
Net incoming / (outgoing) resources surplus/(deficit)	7	(327)	21	2532	2226	2777
Restated Fund balances at 1 April		608	5766	47685	54059	51416
Transfers between Funds			(153)	(41)	(194)	(134)
Fund balances at 31 March		281	5634	50176	56091	54059

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 36 to 48 form an integral part of these accounts.

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

CONSOLIDATED BALANCE SHEET AS AT
31 MARCH 2008

	Notes	2007-08		2006-07 Restated	
		Group	Museum	Group	Museum
		£000	£000	£000	£000
Fixed Assets					
Intangible Assets	8	78	78		
Tangible Assets	9	54062	54062	51995	51995
Heritage Assets	10	1554	1554	1320	1320
		<u>55694</u>	<u>55694</u>	53315	53315
Current Assets					
Stocks	11	158	158	169	169
Debtors	12	552	552	488	488
Cash at Bank and In Hand		1505	1388	808	671
		<u>2215</u>	<u>2098</u>	1465	1328
Creditors					
Amounts falling due within one year	13	(916)	(915)	(605)	(604)
		<u>1299</u>	<u>1183</u>	860	724
Net Current Assets					
		<u>56993</u>	<u>56877</u>	54175	54039
Total Assets less Current Liabilities					
Provision for Liabilities and Charges	14	(902)	(902)	(116)	(116)
		<u>56091</u>	<u>55975</u>	54059	53923
Net Assets					
Represented by					
Income Funds					
Restricted Reserves	19	50176	50060	47685	47549
Unrestricted Reserves					
Designated funds	19	5634	5634	5766	5766
General	19	281	281	608	608
		<u>56091</u>	<u>55975</u>	54059	53923
Total Funds					

The notes on pages 36 to 48 form an integral part of these accounts.

The financial statements on pages 33 to 35 were approved by the Board/Trustees on 18 September 2008 and were signed on their behalf by:

Accounting Officer

Date 22 October 2008

Chairman

Date 22 October 2008

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

**CONSOLIDATED CASH FLOW STATEMENT FOR
THE YEAR ENDED 31 MARCH 2008**

	Notes	2007-08	2006-07
		£000	£000
Net cash inflow from operating activities	20	1731	1135
Returns on investment and servicing of finance	20	55	24
Capital expenditure and financial investment	20	(1089)	(622)
Increase/(Decrease) in cash		<u>697</u>	<u>537</u>

The notes on pages 36 to 48 form an integral part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

1.1 Basis of accounting

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

The consolidated financial statements incorporate those of the Royal Armouries Development Trust. All financial statements are made up to 31 March 2008.

1.2 Fundamental accounting concept

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

The Trustees are satisfied, on the evidence available, that Grant-In-Aid the Secretary of State has made available, together with estimated events admission fees and other income in the period to 31 March 2009, is adequate to meet known and reasonably foreseeable circumstances likely to arise in that period. Should unforeseen costs and losses arise, the Royal Armouries aims to absorb these within the resources available to it, but may have to look to the Department for Culture, Media and Sport for further assistance in exceptional circumstances. The Trustees believe, therefore, that the accounts can be prepared on the basis of a going concern.

1.3 Incoming resources

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

1.4 Expenditure

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

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

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

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

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

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

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

1.6 Fund accounting

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

Designated funds comprise funds which have been set aside at the discretion of the Trustees for specific purposes. The use of the designated funds is set out in the notes to the accounts.

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

1.7 Tangible fixed assets

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

Other tangible fixed assets other than the collection assets (see note 1.5) were professionally revalued as at 31 March 2006 and by the use of the appropriate indices 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	50 years & 53 years
Plant & machinery	23 years & 30 years
Fixtures, fittings & equipment	3 to 10 years

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

1.8 Stock

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

1.9 Pensions

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

1.10 Operating leases

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

1.11 Notional costs

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Grant-in-Aid

Grant-in-Aid received in 2007-08 was £8,917,000 (2006-07: £7,814,000). 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 £470k (2006-07: £602k) has been designated by the Trustees for the purposes of capital projects. The sum of £129k (2006-07: 20k) has been designated by the Trustees for the purposes of collection purchases.

	2007-08 £000	2006-07 £000
3. Contributions to costs		
Historic Royal Palaces	<u>141</u>	<u>100</u>

4. Total resources expended

	Staff costs £000	Other direct costs £000	Depreciation / Disposals £000	Allocated Support Cost	2007-08 £000	2006-07 Restated £000
Direct Costs						
Cost of generating funds						
Cost of generating voluntary income	80	72		23	175	202
Fund raising: cost of goods and other costs	312	349	56	263	980	978
Charitable activities						
Care of the collection	997	287	448	945	2677	2695
Education	603	195	126	334	1258	982
Visitor Services	1398	1087	1171	2277	5933	5428
Governance		87			87	81
Redundancy/Early Retirement	835				835	116
	<u>4225</u>	<u>2077</u>	<u>1801</u>	<u>3842</u>	<u>11945</u>	<u>10482</u>
Support Costs						
Directorate	380	319		(699)		
Administrative support	592	223		(815)		
Shared services	576	1752		(2328)		
	<u>1548</u>	<u>2294</u>		<u>(3842)</u>		
	<u>5773</u>	<u>4371</u>	<u>1801</u>			

	2007-08 £000	2006-07 £000
Governance costs		
Trustee expenditure	22	25
Audit fees (All auditors' remuneration was in respect of audit work)	65	56
	<u>87</u>	<u>81</u>

4a Staff Costs

	2007-08 £000	2006-07 Restated £000
Salaries and wages	3919	3858
Agency staff	72	74
National Insurance Contributions	271	266
Superannuation	676	658
Early Retirement Costs	356	166
Provision Release	(49)	(50)
Redundancy Costs	528	
	<u>5773</u>	<u>4972</u>

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

	2007-08	2006-07
Cost of generating voluntary funds	2	2
Fundraising: cost of goods sold and other	19	22
Care of the collection	44	48
Education	20	18
Visitor Experience	95	99
	<u>180</u>	<u>189</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Total resources expended (continued)

Chief Executive

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

Employees receiving remuneration over £60,000:

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

	2007/08	2006/07
£60,001 - £65,000	2	
£95,001 - £100,000		1
£100,001 - £105,000	1	

Pension Scheme

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

The PCSPS is an unfunded multi-employer defined benefit scheme, but the Royal Armouries is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007-08, contributions of £669k (2006-07: £651k) were paid to the Paymaster General, the contribution rates varying from 17.1% to 25.5% according to salary bandings. The Royal Armouries also provides partnership schemes for a number of staff; contributions amounted to £7k in 2007-08 (2006-07: £7k).

4b Trustees

No member of the Board of Trustees of the Royal Armouries received any emoluments during the year. Nine Trustees were re-imbursed for their travel and subsistence expenses during the year, which amounted to £21,885 (2006-07: £24,722).

5. Collection objects

Of the £132k spent on collection purchases during the year £129k was capitalised and recognised in the balance sheet and £3k was charged to the SoFA.

In addition to the above, four objects were received by way of gift or bequest. The value recognised in the balance sheet in 2007-08 was £105k (2006-07: Nil)

As per Treasury requirements collection purchases were only valued from 1st April 2001. Total value of collection purchases from April 2001 is £1,094k.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Notional costs

Notional cost of capital is calculated as 3.5% of the average capital employed in the year less the value of donated assets. In 2007-08 the charge was £1,867,000 (2006-07: £1,788,000).

7. Net Incoming/(Outgoing) Resources

	2007-08	2006-07
	£000	£000
Net incoming resources is stated after charging:		
External auditor for audit work	41	30
Internal Auditor	24	25
Legal services	79	96
Traveling and subsistence costs	170	142

All auditors' remuneration was in respect of audit work

8. Intangible Fixed assets

	Group and Museum	
	2007-08	2006-07
	£000	£000
Additions	78	
Cost as at 31st March 2008	78	0
Amortisation during year		
Amortisation as at 31st March 2008	0	0
Net Book Value at 31 March 2008	78	0

Relates to Royal Armouries website development costs and software licences

9. Tangible Fixed assets

	Group and Museum			
	Land and Buildings	Plant and Machinery	Fixtures Fittings and Equipment	Total
	£000	£000	£000	£000
Cost				
As at 1st April 2007	48458	4476	2862	55796
Additions			777	777
Transfers			0	0
Disposals			(1)	(1)
Revaluations	3005	240	40	3285
As at 31 March 2008	51463	4716	3678	59857
Depreciation				
As at 1 April 2007	2702	537	562	3801
Charge for the year	972	199	629	1800
Disposals			0	0
Revaluation	169	26	(1)	194
As at 31 March 2008	3843	762	1190	5795
Net Book Value				
As at 31 March 2007	45756	3939	2300	51995
As at 31 March 2008	47620	3954	2488	54062
Charitable activities	46139	3954	2411	52504
Other activities	1481		77	1558
Total	<u>47620</u>	<u>3954</u>	<u>2488</u>	<u>54062</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

As a result of the surrender of the lease on the car park, 24,000 square feet of storage space was acquired to house part of the Royal Armouries collection, the National Firearms Centre. The NFC has been valued by Rushton International as at the 31 March 2006 with the value being adjusted by the use of indices in 2007.

A full valuation on all fixtures and fittings was also carried out by Rushton International as 31 March 2006. The values have been adjusted in 2007 using indices.

10. Heritage Fixed Assets

	Group and Museum		Total £000
	Acquisitions for the collection	Donated Assets	
	£000	£000	
Cost as at 1st April 2007	965	355	1320
Additions	129	105	234
Cost as at 31st March 2008	1094	460	1554

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

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

11. Stocks

	Group and Museum	
	2007-08 £000	2006-07 £000
Stocks valued at cost	175	188
Less: provisions for publications and other slow moving stocks	(17)	(19)
	<u>158</u>	<u>169</u>

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

12. Debtors

	Group and Museum	
	2007-08 £000	2006-07 £000
Trade debtors	10	10
Other debtors	156	216
VAT recoverable	229	133
Prepayments	166	134
Provision for bad debts	(9)	(5)
	<u>552</u>	<u>488</u>

There were no material balances outstanding with the Whole of Government Accounts bodies at 31 March 2008.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Creditors: amounts falling due within one year

	Group	
	2007-08	2006-07
	£000	£000
Trade creditors	32	19
Income Tax and Social Security		
Other creditors	99	190
Accruals	785	396
	916	605
	Museum	
	2007-08	2006-07
	£000	£000
Trade creditors	32	19
Income Tax and Social Security		
Other creditors	98	189
Accruals	785	396
	915	604

There were no material balances outstanding with the Whole of Government Accounts bodies at 31 March 2008.

14. Provisions for Liabilities and Charges

	2007-08	2006-07
	£000	£000
Redundancy Costs	528	
Early Retirement Charges		
Opening balance as at 1st April	116	
Increase in provision: future liability for redundant staff aged 50+	307	116
Release of provision	(49)	
Closing balance as at 31st March	374	116
	902	116
Liability due within one year	618	49
Liability due after one year	284	67

The provision reflects early retirement costs for those employees aged over 50 and redundancy costs following the announcement of a restructure. The final charge against the provision will be in the year to March 2018 and as the values are not material they have not been discounted to present values.

15. Trading activities

	2007-08	2006-07
	£000	£000
Trading income	656	670
Cost of sales	(309)	(310)
	347	360
Gross profit		
Other costs	(346)	(341)
	1	19

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

	2007-08	2006-07
	Profit/(loss)	Profit/(loss)
	£000	£000
Leeds Shop	37	44
Fort Nelson Shop	(11)	(8)
Fort Nelson catering activities	(25)	(17)
	1	19

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Contingent Liabilities

There were no contingent liabilities at 31 March 2008.

17. Capital Commitments

There were no capital commitments at 31 March 2008.

18. Analysis of group net assets between funds

	Group			Total £000
	Unrestricted Funds		Restricted Funds	
	General £000	Designated £000	£000	
Funds balances as 31 March 2008 are represented by:				
Intangible fixed assets		78		78
Tangible fixed assets		5556	48506	54062
Heritage fixed assets			1554	1554
Current assets	2098		117	2215
Current liabilities	(915)		(1)	(916)
Provisions for Charges & Liabilities	(902)			(902)
Total net assets	281	5634	50176	56091

	Museum			Total £000
	Unrestricted Funds		Restricted Funds	
	General £000	Designated £000	£000	
Funds balances as 31 March 2008 are represented by:				
Intangible fixed assets		78		78
Tangible fixed assets		5556	48506	54062
Heritage fixed assets			1554	1554
Current assets	2098			2098
Current liabilities	(915)			(915)
Provisions for Charges & Liabilities	(902)			(902)
Total net assets	281	5634	50060	55975

19. Statement of group funds

	Group					31 March 2008 £000
	Restated 1 April 2007 £000	Income £000	Expenditure £000	Revaluation £000	Transfers £000	
Unrestricted funds						
General fund	608	9097	(9424)			281
Designated fund	5766	599	(811)	209	(129)	5634
Total unrestricted funds	6374	9696	(10235)	209	(129)	5915
Restricted funds						
Land and Buildings	44670	456	(1405)	2791		46512
National Firearms Centre	1559		(41)	91		1609
Sponsorship and Donations		481	(96)			385
Heritage Assets	965				129	1094
Donated Assets	355	105				460
Contribution to costs		141	(141)			
RADT	136	7	(27)			116
Total restricted funds	47685	1190	(1710)	2882	129	50176
Total funds	54059	10886	(11945)	3091		56091

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Statement of funds

	Museum					31 March 2008
	Restated 1 April 2007	Income	Expenditure	Revaluation	Transfers	
	£000	£000	£000	£000	£000	£000
Unrestricted funds						
General fund	608	9097	(9424)			281
Designated fund	5766	599	(811)	209	(129)	5634
Total unrestricted funds	<u>6374</u>	<u>9696</u>	<u>(10235)</u>	<u>209</u>	<u>(129)</u>	<u>5915</u>
Restricted funds						
Land and Buildings	44670	456	(1405)	2791		46512
National Firearms Centre	1559		(41)	91		1609
Sponsorship and Donations		507	(122)			385
Heritage Assets	965				129	1094
Donated Assets	355	105				460
Contribution to costs		141	(141)			
Total restricted funds	<u>47549</u>	<u>1209</u>	<u>(1709)</u>	<u>2882</u>	<u>129</u>	<u>50060</u>
Total funds	<u>53923</u>	<u>10905</u>	<u>(11944)</u>	<u>3091</u>		<u>55975</u>

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

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

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.

20. Cash flow information

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

	Group	
	2007-08	Restated 2006-07
	£000	£000
Net incoming/ (outgoing) resources	2226	2777
Interest receivable	(55)	(24)
Depreciation	1800	1668
Loss on disposal of fixed assets	1	36
Donated assets		
Revaluation of fixed assets	(3285)	(3447)
(Increase) / decrease in stocks	11	(21)
(Increase) / decrease in debtors	(64)	(20)
Increase / (decrease) in creditors	311	50
Provision for Liabilities & Charges	786	116
Net cash inflow from operating activities	<u>1731</u>	<u>1135</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. Cash flow information (continued)

b) Analysis of cash flows

	Group	
	2007-08 £000	2006-07 £000
Returns on investment and servicing of finance		
Interest received	55	24
Net cash inflow for returns on investment and servicing of finance	<u>55</u>	<u>24</u>
Capital expenditure and financial investment		
Tangible fixed assets	(1089)	(622)
Net cash outflow from capital expenditure and financial investment	<u>(1089)</u>	<u>(622)</u>

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

	Group	
	2007-08 £000	2006-07 £000
Increase/(decrease) in cash in the period	697	537
Increase/(decrease) in net funds in the period	<u>697</u>	<u>537</u>
Net funds at 1 April	808	271
Net funds at 31 March	<u>1505</u>	<u>808</u>

d) Analysis of net funds

	1 April 2007	Group Cash flow in period	31 March 2008
	£000	£000	£000
Cash	808	697	1505
Net funds	<u>808</u>	<u>697</u>	<u>1505</u>

21. Related party transactions

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

The Royal Armouries also has a number of financial transactions with the following parties; Royal Armouries (International) plc, Historic Royal Palaces, Frazier International History Museum and the Royal Armouries Development Trust. The following table highlights the transactions during the year and the outstanding balance as at the year end.

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2007-08 Income £000	2007-08 Costs £000	2007-08 Debtor £000	2007-08 Creditor £000
Frazier International History Museum	47		14	
Historic Royal Palaces - contribution to costs (£141k), sponsorship and retail income. Costs relate to Tower entrance fees and sundry charges	233	37	3	33
Royal Armouries (International) plc - labour recharges and sundry income. Costs relate to the provision of catering facilities	40	17	2	6

There were transactions during the year with two Trustees. Jon Hammond Booth charged £1000 for training services and Richard Holmes had no direct payments however his publications were available through our Retail operation. There were no other material related party transactions with the Trustees, key managerial staff or other related parties during the year

22. Financial instruments

The Royal Armouries has no borrowings and relies primarily on department grants for its cash requirements. Grant in Aid accounts for 82% of income (2006-07: 81%).

It is therefore not exposed to liquidity risks. It also has cash deposits of £1,505k (2006-07: £808k), and all material assets and liabilities are denominated in sterling, so it is not exposed to interest risk or currency risk.

23. Financial commitments

As at 31 March 2008 the Royal Armouries had annual commitments under a non-cancellable operating lease for land as follows:

	Land	
	2007-08 £000	2006-07 £000
Operating lease which expires		
Within one year		
two to five years		
More than five years		
	367	367
	367	367

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2006-07 Per Published Accounts £000	Prior Year Adjustment (i) £000	Prior Year Adjustment (ii) £000	Prior Year Adjustment (iii) £000	Prior Year Adjustment (iv) £000	2006-07 Restated £000
--	--	---	--	---	--	-----------------------------

24. Prior Year Adjustments

Prior Year Adjustments to the Statement of Financial Activity

Fundraising trading: costs of goods and services	(981)	3				(978)
Care of the collection	(2728)	33				(2695)
Education	(992)	10				(982)
Visitor Experience	(5516)	88				(5428)
Early Retirement Costs					(116)	(116)
Total resource expended	(10500)	134			(116)	(10482)
Net incoming / (outgoing) resources	2759	134			(116)	2777
Transfers between Funds		(134)				(134)
Fund balances at 31 March	54175	0			(116)	54059

Prior Year Adjustments to the Balance Sheet - Group

Tangible Fixed Assets	53315		(1320)			51995
Heritage Fixed Assets			1320			1320
Provisions for Liabilities and Charges					(116)	(116)
Restricted Reserves	46365			1320		47685
Designated Fund	7086			(1320)		5766
General Fund	724				(116)	608

Prior Year Adjustments to the Balance Sheet - Museum

Tangible Fixed Assets	53315		(1320)			51995
Heritage Fixed Assets			1320			1320
Provisions for Liabilities and Charges					(116)	(116)
Restricted Reserves	46229			1320		47549
Designated Fund	7086			(1320)		5766
General Fund	724				(116)	608

(i) Recognition of backlog depreciation arising upon revaluation as a movement on reserves rather than through the SOFA.

(ii) Separate disclosure of Heritage Fixed Assets on the face of the Balance Sheet

(iii) Heritage Fixed Assets to be treated as restricted reserves rather than designated

(iv) Recognition in the SOFA and Balance Sheet of full liability outstanding for early retirement costs

25. Post Balance Sheet Events

The emphasis of matter previously declared in the financial statements has now been removed as a result of the land transactions being approved after the Balance Sheet date by all parties concerned.

The financial statements were authorised for issue on 5 November 2008



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