

NATIONAL HERITAGE ACT 1983

Annual Report and Accounts of the Board of Trustees of the Royal Armouries for the year ended 31 March 2007, together with the report of the Comptroller and Auditor General thereon. Presented pursuant to National Heritage Act 1983, c. 47, Sch 1, section 29(7) and section 30 (4)

Order by the House of Commons to be printed on 25 October 2007

BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

HC 1008

LONDON: The Stationery Office

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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 four sub-committees: the Finance Committee, the Audit Committee, the Development Committee and the Commercial Committee.

Paul Evans, Chief Executive, is the nominated Accounting Officer for the Museum and is responsible for the overall organisation, management and staffing of the Museum and its procedures in financial and other matters, including conduct and discipline. The Accounting Officer is responsible to Parliament and to the Accounting Officer of DCMS for the resources under his control. Along with the Accounting Officer, three Directors - the Museum Director, Administration Director and Collection Director - make up the Royal Armouries Executive team. The Royal Armouries Executive is accountable to the Board of Trustees.

Staff Communications

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

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

Equal Opportunities

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

Relationship between charity and related parties

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

REVIEW OF PERFORMANCE DURING THE YEAR

10th Birthday Collection

March 2006 marked the 10th birthday of the Royal Armouries Museum in Leeds. To celebrate this, the Museum initiated an extensive programme of events, exhibitions and gallery developments beginning with an unusual birthday party in the Victoria Quarter shopping centre in Leeds. Knights in Armour, horses and musicians brought the museum to the surprised and delighted shoppers right outside Harvey Nichols. We were overjoyed to see how Leeds as a city has taken the museum to its heart.

The Royal Armouries Museum's commitment to expanding its audience and showing the most relevant objects not just from a historical perspective but also addressing today's issues means that in 2006 the Museum took the decision to only acquire objects that would enhance its displays. This led to a number of exciting new redisplays throughout all the sites and helped to raise some of the issues within the new brand vision.

Typical of this was the Knife Amnesty Display housed in the Impact Gallery at Leeds. This display utilised knives handed to the police as part of the West Yorkshire amnesty and raised the profile of both the law in regards to carrying knives and the dangers involved.

After being one of the key displays for ten years within Leeds, the Hall of Steel was due a clean, both the walls themselves and more importantly the 3,700 objects displayed in the 40 metre tower. If this wasn't daunting enough the whole operation had to take place during the quietest 3 months of the year as the main stairs wind their way to each gallery around this magnificent tower. After scaffolding was erected each object had to be painstakingly removed, catalogued, conserved and replaced in exactly the same place. Ten conservators from all over the country worked on the project resulting

in one of the jewels of the Royal Armouries displays re-opening on time and to budget for visitors to admire.

Perhaps one of the most significant display changes in 2006 was the development of the War Gallery entrance in the Leeds Museum. There had always been some confusion as to where this Gallery began and what story it told. In collaboration with an outside design and build company and jointly funded by the DCMS/Woolfson Fund and the History Channel, the Museum created a journey that introduced the visitor to the reasons behind the development of Arms and Armour throughout history, the cause and effect of new technology and finally the chance to handle the objects themselves.

The ability for the visitor to handle the objects has always been a difficult problem to solve due to both the care of the collection and the dangers inherently involved in handling weapons. The new "Hands on History" displays, however, began to solve all that. These hugely popular displays allow the visitor to experience what it must have been like to fire a long bow, to hold a hand-and-a-half sword or to experience what a medieval knight would have seen through his visor in the heat of battle. This display has been so popular that it is now being enhanced and developed for a much larger audience on the top floor of the White Tower within the Tower of London, the first phase of which will open in the summer 2007.

10th Birthday Visitor Experience

In keeping with the successful programme of events at all the sites, 2006 saw a number of new spectacles linked to the core of the collection. Yet again the Fort Nelson Tattoo attracted thousands of people to view marching bands, re-enactments and fly pasts by the Royal Air Force. The medieval jousts at Leeds saw record crowds watch 16th century men at arms from all over the globe battle for the Queen's Trophy, both at Easter and during August half term.

Our interpreters also presented a week of performances showing the very best of what the Royal Armouries has been offering visitors for 10 years from the Roman and Greek period right up to modern day. The highlights included Chariot Racing, the Charge of the Light Brigade, the story of the Cockleshell Heroes and finally, a piece based on the news that very day from Iraq.

Our main exhibition 'Alex Rider Teenage Spy' was developed in conjunction with Walker Books and the World Famous children's author Anthony Horowitz. This interactive and action-packed exhibition allowed children and the young at heart to follow in the footsteps of hero Alex Rider, portrayed in the books by Horowitz and the summer blockbuster film release Stormbreaker. Including props from the movie, original manuscripts and interactive games, the exhibition took the visitor inside the world of spies and also used real objects, demonstrating that some of the gadgets used by Alex were not so extraordinary, as many had been actually used, particularly at the height of the cold war.

Academic Programme

The success of the 'History in your Hands' seminars continued throughout 2006 with over 20 lectures and seminar days for the real aficionado to enjoy. Ranging from Medieval armour to the Battle of Waterloo these specialist days remain one of the most popular activities and bring history to life literally in the hands of the visitor.

The Museum also played host to the World Battlefield Congress Conference which saw delegates from all over the world congregate at the Leeds Museum to hear lectures by some of the world experts in the field of Arms and Armour. This year's conference focused on Battlefield archaeology and the Royal Armouries staff were able to contribute both their knowledge and some of the finds held in the collection.

Publications

For the 10th anniversary a new Guidebook was produced at Leeds, not a mean feat when you consider 6 galleries and over 10,000 objects on show. The Guidebook focused on telling the stories related to the objects as well as a special section highlighting the treasures of the collection and an interactive quiz for children.

Two new academic publications were completed and are on sale in the shop including an addition to the successful 'Introduction to...' series 'Indian Arms and Armour'.

The department also worked in partnership with the publishers Dorling Kindersley on the production of two huge definitive works on the 'Gun' and the very successful 'Warrior'.

National Firearms Centre

Since the gifting of the Ministry of Defence Pattern Room to form the core of the National Firearms Centre, another 5,000 weapons have been added from both the Royal Armouries' core collection and outside contributors. This has resulted in the NFC holding over 25,000 small arms, making it undoubtedly the world's finest collection.

Through its unique partnership with the private company LGC Forensics and its strong links with police forces in the UK and abroad, the collection continues to be an asset in the fight against gun crime. In 2006 the NFC helped with enquiries from both Interpol and the FBI as well as working with United Nations survey on Small Arms proliferation. It continues to be at the cutting edge for the collection in developing weapons awareness and helping 'Keep Britain Safe'.

Tower of London

Re-display of the White Tower

A re-display strategy is currently being developed by the Boards and Executives of both the Royal Armouries and Historic Royal Palaces which will see the White Tower become a must-see feature in its own right. The first phase of this five-year plan (2007-2012) is the development of the top floor of the Tower using the type of installations already so very popular in Leeds.

An amount of sponsorship for the exhibition has already been secured from the History Channel and the Royal Mint, with the first phase opening in July 2007. This will be closely followed over the next 5 years with an expansion of the hands on experience, the development of the other Galleries, the re-establishment of the Line of Kings and the staging of a spectacular Henry VIII exhibition.

Bayer Material Science Partnership

Under the banner 'Vision Works', an important new initiative will be undertaken in collaboration with Bayer Material Science to create a state of the art teaching space in the Vaults under Tower Hill. Designed to enable children to take a completely new look at history through the development of materials, Vision Works will give thousands of

young people, from some of the most deprived areas of London, the chance to experience science at first hand. The sessions now range from using forensic science to solving a murder at the Tower, to looking at the properties of materials linked to the development of this historic building.

The launch of the partnership took place at the Tower of London in March 2007 and following the design and build process, the development will be opened in September 2007.

Fort Nelson

The unique combination of the physical site and the objects within mean that the Fort Nelson site in Portsmouth has produced both excellent reactions from visitors and seen visitor numbers rise year-on-year from 40,000 in 2000 to 85,000 in 2005. This increase in visitor numbers, although welcome, has meant an increase in pressure on the site itself, to meet the public's needs.

The physically limiting factors, which affect Fort Nelson's future growth, are a priority; car parking, entrances, visitor facilities, educational facilities and gallery space all present challenges. To address problems of access, and also the lack of a coherent story line about the Fort itself and its collection, an ambitious and extensive redevelopment programme is planned which will change and dramatically enhance the offer to every visitor. The programme will bring the history of the Fort to life by ensuring a quality experience that will continue to inform, challenge and entertain our existing visitor base whilst providing the resources and additional capacity to support our successful track record of attracting new audiences.

A regional Heritage Lottery Fund bid is being prepared for submission during 2007 along with a match-funding programme to raise the £3.5 million needed to fund this redevelopment programme.

The Brand

In 2006 as a result of our 'Design a Future' strategic review, the Royal Armouries underwent a re-branding exercise to redefine its purpose. This led to the development of 'Protection' as the Royal Armouries' core proposition. The result is a refreshed logo

and associated imagery and iconography that will help the organisation to present itself with more consistency and focus.

Our Vision: To help make Britain a safer place.

Our Mission: To harness the reputation and relationships of our organisation, the talents of our team and the power of our brand to promote greater safety in all walks of life.

In terms of cultural capital, social inclusion and relevance to the community there are few museums more strongly placed than the national museum of arms and armour. In recent years the Royal Armouries has embarked on a journey to promote the values of responsibility and respect, to establish partnerships and to address the misuse of weaponry and aggression.

It is true that the Royal Armouries has earned a formidable reputation for its collection and its knowledge of the history of weaponry, but less well-known is our work to help make Britain a safer place: raising awareness of the effects of gun crime, working in partnership with the police to remove guns and knives from our streets and, through education, helping young people deal with conflict.

The Royal Armouries aims to use its position to unite the many stakeholders who believe in a safer world and put the issue of Protection, whether of the individual or of the community, on the national agenda.

Our first nationwide campaign – NTK: No to Knives is aimed at encouraging Britain's youth not to carry knives and will be launched in summer 2007.

The new brand was launched to 200 guests from the public, private and voluntary sectors at the Tower of London in January 2007.

The event provided the foundation-stone of the Royal Armouries' campaign: an opportunity for us to set out our manifesto to our closest supporters and to begin the process of rejuvenating the organisation.

The message was very firm: if you thought you knew the Royal Armouries, think again.

Major Acquisitions 2006/07

- Sword for a child, French, mid 10th-12th century. Found by an English "mudlark" in the river Seine near Rouen.
- Mail crinet, probably Italian, late 14th century. Part of a private collection in North Italy held by the previous owner since 1945.
- Dawson Family archives. Recount the story of three brothers who died on, or as a result of, active service during the Napoleonic Wars.

Future Plans

Leeds

- The development of a dedicated exhibition space on the 5th floor of the Museum will be completed allowing the flexibility to hold internal and external exhibitions all year round.
- A Horrible Histories exhibition will be created in conjunction with the hugely successful series of books of the same name. This interactive exhibition will be developed for the 2007 summer holidays using the theme of Crime and Punishment.
- Using cutting edge technology, a temporary exhibition " Froissart - will bring to life the Illuminated Manuscript of the account of the Hundred Years War as well as exploring the concept of propaganda in a modern context.
- *The Great Rebellion*. A permanent development to the Oriental Gallery will explore the stories behind the so called "Indian Mutiny" looking at its causes, the atrocities on both sides and the continued repercussions of colonialism in today's world.
- A major capital improvement Programme to develop the entrance area known as "the street" into a meeting place in its own right, will be undertaken in association with the Royal Institute of British Architects. This aims to improve the visitor's perception of the museum from the moment of entry encouraging them to explore the museum in depth.

The Tower of London

- The completion of a five-year re-display strategy for the White Tower including the refurbishment of the Line of Kings and building of the Henry VIII exhibition in 2009
- The development of the Science Zone within the Tower Vaults in partnership with Bayer Material Science
- The introduction of an Education Programme focusing on Outreach and in line with the core proposition of protection.

Fort Nelson

- The submission of a regional HLF bid for £2M to fund the re-development programme and an extensive match-funding programme to raise the additional £1.5M required to deliver the project

The Brand

- NTK: No to Knives. The launch of our first nationwide brand-related campaign to be launched in 2007 is aimed at encouraging Britain's youth to pledge against the edge- www.ntk.org.uk
- There are two strands to NTK:
 1. An awareness campaign with the aim of securing a million pledges to get national attention and secure lobbying power.
 2. Practical delivery of programmes which support NTK by delivering e.g. weapons awareness courses to young people educating them about the dangers of carrying knives.

PERFORMANCE AGAINST THE TARGETS IN 2006-07 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. 2006-07 was the second year of a three-year agreement. The targets for 2006-07 and the actual performance achieved against each of them are set out below.

Performance Indicator	2006-07 Target	2006-07 Outturn
Total number of visits	430,000	376,269
No of unique users visiting the website	200,000	388,893
Number of adult UK visitors (aged 16 and over) from NS-SEC groups 5-8 attending the Museum	40,000	35,745
Number of children aged 15 and under in on and off-site organised educational sessions	105,000	108,788
Number of children aged 15 and under visiting the Museum	167,000	141,666
Net income from trading (including corporate hire*)	£235,000	£220,000
Efficiency Savings	£650,000	£339,000

* 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 32.

In 2006-07 the Royal Armouries recorded an operating surplus of £528k; this is made up of a £535k Museum surplus set against a £7k Royal Armouries Development Trust deficit.

The Museum's Statement of Financial Activities (SOFA) is set out on page 32 of this document. Incoming resources for the period amounted to £9,812k which included government grants amounting to £7,911k and £461k from compensation for the roof at the main site at Leeds; resources expended amounted to £10,500k, resulting in a net outgoing resources of £688k (before notional costs and revaluations). £1,838k were 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 2006-07 were lower than budgeted and this adversely affected the commercial income. Events income was lower as we did not hold a large summer exhibition as in 2005-06 and the RA Live work previously undertaken for the National Trust in Scotland did not repeat. Sponsorship and donations rose from £113k in 2005-06 to £129k in 2006-07. Contributions to costs of £100k were received from Historic Royal Palaces.

Total resources expended included salaries and related employee costs of £4,906k which was an increase of £61k over the previous year. Salary expenditure accounted for 46.7% of operational cost and depreciation at £1,838k for 17.5%.

BALANCE SHEET

Of the fund balances at 31 March 2007:

- restricted funds, subject to specific restriction by the providers of the funds, amounted to £46,365k (2005-06: £44,203k);
- designated funds, set aside to finance tangible fixed assets other than the Leeds Museum, amounted to £7,086k (2005-06: £7,024k); and
- the surplus on general unrestricted funds available for use in furtherance of the general objectives of the Museum, amounted to £724k (2005-06: £189k). Of this reserve it is likely that £461k will be spent on replacing the roof during 2007-08.

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 £20k were capitalized in 2006-07.

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

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

Although the Museum's total reserves at 31 March 2007 are shown as £54.2 million on its balance sheet, all but £724k 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 2006-07, the Royal Armouries paid approximately 90% (2005-06: 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 2006-07 was £7,706 (2005-06: £28,222). Expenditure amounted to £14,301 (2005-06: £590) decreasing the reserves by £6,595. Overall net assets at 31 March 2007 were £136,379 (2004-05: £142,974). The accounts of the Royal Armouries Development Trust have been consolidated with the accounts of the Board of Trustees of the Royal Armouries.

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

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

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

Museums Addresses

Principal Address

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

Royal Armouries
Fort Nelson
Portsdown Road
Portsmouth
Hampshire
PO17 6AN

Royal Armouries
Tower of London
London
EC3N 4AB

Board of Trustees of Royal Armouries

The following persons were members of the Board of Trustees of the Royal Armouries in 2006-07 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	16.07.08
General Sir Roger Wheeler GCB CBE	01.08.01	31.07.09
Francis Carnwath CBE	26.04.00	25.04.07
Bob Morton FCA	22.01.03	20.01.11
Chris Oakley CBE	26.05.02	25.03.10
John Siddall MA(Oxon)	01.09.04	31.08.08
Patricia Langham BA MEd	04.11.04	03.11.08
Jon Hammond Booth	02.12.04	01.12.08
Marie Stevens	19.09.05	18.09.09
Professor Richard Holmes CBE TD JP	26.09.05	25.09.09
Duncan Wilson OBE	01.09.07	31.08.11

Trustee sub-committees

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

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
Peter Armstrong	Museum Director
Joan Jacobs	Administration Director
Steve Burt (appointed 12.06.06)	Collection Director

List of Royal Armouries Advisors

External Auditors

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

Internal Auditors

KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW

Auditors Royal Armouries Development Trust

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

Bankers

NatWest plc
Bishopsgate Business Centre
London
EC2P 2AP

Solicitors

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

Queen Anne's Chambers
28 Broadway
London SW1H 9JS

Statement as to Disclosure of Information to auditors

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

External auditors

Under schedule 1, 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 05 October 2007

Paul Evans
Accounting Officer

Dated 05 October 2007

Remuneration Report

Remuneration Committee

The membership of the Remuneration Committee is:

Ann Green (Chair)
Bob Morton
John Siddall

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 2006/07 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 2006 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for March 2007.

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	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Remuneration	91	87	59	51	42	-	57	53
Bonus	9	8	-	3	-	-	-	3
Employers pension contribution	23	21	14	12	10	-	13	12
Cash equivalent transfer value at 31 March	95	78	30	18	N/a	-	177	156
Real increase in cash equivalent transfer value	15	19	10	9	N/a	-	13	24
Real increase in pension age 60	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	-	0-2.5	2.5-5

Ann Green
Chairman

Dated 05 October 2007

Paul Evans
Accounting Officer

Dated 05 October 2007

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 has designated the Chief Executive as the Accounting Officer for the Board. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances, for which he is answerable, and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by the Treasury and published in *Government Accounting*.

Ann Green
Chairman

Dated 05 October 2007

Paul Evans
Accounting Officer

Dated 05 October 2007

STATEMENT ON INTERNAL CONTROL □ THE ROYAL ARMOURIES, 2006-07

Scope of responsibility

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

The Trustees, as a non-executive Board, are collectively responsible for the 'general management and control of the Museum including risk management'. The Board has delegated the responsibility for monitoring risk to its Audit Committee, who, along with the 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 Risk Committee has overall responsibility for risk management during the year.

The Risk 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 2006/07 were:

- Maintaining visitor numbers during the Clarence Dock Redevelopment Work;
- Securing sufficient self-generated income to continue with the refurbishment of the galleries;
- Securing funding to instigate repairs to the roof.

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

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 2006-07 the Internal Auditors reported on payroll, policies, cash management and the National Firearms Centre. Internal Audit also undertook a follow-up review of issues raised in prior years.

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

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

I have been advised on the results of a review I commissioned by our internal auditors that the effectiveness of our system of internal control is adequate. I plan to incorporate any suggestions made by our internal auditors to ensure that there is continuous improvement to the system already in place.

The above arrangements have been in place throughout the financial year 2006-07 and I consider the Museum to be compliant with the required standards.

Paul Evans
Accounting Officer

Dated 05 October 2007

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 05 October 2007

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

Board of Trustees of the Royal Armouries

I certify that I have audited the consolidated financial statements of the Royal Armouries for the year ended 31 March 2007 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, certain information given in the Trustees' Report, which comprises the Trustees' and Accounting Officer's Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure income and resources funded by grant-in-aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities, which govern them.

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. 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 expenditure, income and resources funded by grant in aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

the financial statements give a true and fair view, in accordance with the National Heritage Act 1983 and the Secretary of State for Culture Media and Sport's directions made thereunder, of the state of Royal Armouries and the group's affairs as at 31 March 2007 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 given within the Trustees' Report, which comprises 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 expenditure and income funded by Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities, which govern them.

Emphasis of Matter – Land Transactions

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

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Date 22 October 2007

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR
THE YEAR ENDED 31 MARCH 2007

	Notes	Unrestricted funds		Restricted funds	Total funds	Total funds
		General	Designated		2006-07	2005-06
		£000	£000	£000	£000	£000
Incoming resources						
Incoming Resources from generated funds						
Voluntary Income						
Grant-In-Aid	2	7192	622		7814	7369
Grant DCMS/Wolfson				97	97	46
Grant DCMS/DfES Strategic Commissioning						160
Other voluntary income		27		102	129	113
Contributions to costs	3			100	100	100
Activities for generating funds						
Income from trading activities	12	670			670	787
Conservation Income		7			7	11
Investment income		21		3	24	13
Incoming resources from charitable activities						
Events Income		274			274	502
Educational Income		50			50	51
Other Operating Income		186			186	104
Other Incoming Resources						
Surrender of Lease						1535
Compensation for Roof		461			461	
Total incoming resources		8888	622	302	9812	10791
Resources expended						
Costs of generating funds						
Costs of generating voluntary income	4	(188)		(14)	(202)	(177)
Fundraising trading: costs of goods and services	4	(926)	(23)	(32)	(981)	(924)
Charitable activities						
Care of the collection	4	(2181)	(211)	(336)	(2728)	(2715)
Education	4	(865)	(53)	(74)	(992)	(1169)
Visitor Experience	4	(4113)	(500)	(903)	(5516)	(5296)
Governance costs	4	(80)		(1)	(81)	(73)
Total resource expended before		(8353)	(787)	(1360)	(10500)	(10354)
Notional incoming/(outgoing) resources before notional costs		535	(165)	(1058)	(688)	437
Notional cost of capital	6	(16)	(243)	(1529)	(1788)	(1721)
Gain on revaluation of assets			227	3220	3447	2030
		519	(181)	633	971	746
Reversal of notional costs		16	243	1529	1788	1721
Net incoming / (outgoing) resources surplus/(deficit)	7	535	62	2162	2759	2467
Fund balances at 1 April		189	7024	44203	51416	48949
Fund balances at 31 March		724	7086	46365	54175	51416

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 35 to 46 form an integral part of these accounts.

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

CONSOLIDATED BALANCE SHEET AS AT
31 MARCH 2007

	Notes	2006-07		2005-06	
		Group	Museum	Group	Museum
		£000	£000	£000	£000
Fixed Assets					
Tangible Assets	8	53315	53315	51084	51084
		<u>53315</u>	<u>53315</u>	<u>51084</u>	<u>51084</u>
Current Assets					
Stocks	9	169	169	148	148
Debtors	10	488	488	468	468
Cash at Bank and In Hand		808	671	271	128
		<u>1465</u>	<u>1328</u>	<u>887</u>	<u>744</u>
Creditors					
Amounts falling due within one year	11	(605)	(604)	(555)	(555)
		<u>860</u>	<u>724</u>	<u>332</u>	<u>189</u>
Net Current Assets					
		<u>860</u>	<u>724</u>	<u>332</u>	<u>189</u>
Total Assets less Current Liabilities					
		<u>54175</u>	<u>54039</u>	<u>51416</u>	<u>51273</u>
Represented by					
Income Funds					
Restricted Reserves	16	46365	46229	44203	44060
Unrestricted Reserves					
Designated funds	16	7086	7086	7024	7024
General	16	724	724	189	189
		<u>54175</u>	<u>54039</u>	<u>51416</u>	<u>51273</u>

The notes on pages 35 to 46 form an integral part of these accounts.

The financial statements on pages 32 to 34 were approved by the Board/Trustees on 5 October 2007 and were signed on their behalf by:

Paul Evans
Accounting Officer

Date 5 October 2007

Ann Green
Chairman

Date 5 October 2007

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

**CONSOLIDATED CASH FLOW STATEMENT FOR
THE YEAR ENDED 31 MARCH 2007**

	Notes	2006-07	2005-06
		£000	£000
Net cash inflow from operating activities	17	1135	1997
Returns on investment and servicing of finance	17	24	13
Capital expenditure and financial investment	17	(622)	(1993)
Increase/(Decrease) in cash		<u>537</u>	<u>17</u>

The notes on pages 35 to 46 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 2007.

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 2008, is adequate to meet known and reasonably foreseeable circumstances likely to arise in that period. Should unforeseen costs and losses arise, the Royal Armouries aims to absorb these within the resources available to it, but may have to look to the Department for Culture, Media and Sport for further assistance in exceptional circumstances. The Trustees believe, therefore, that the accounts can be prepared on the basis of a going concern.

1.3 Incoming resources

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

1.4 Expenditure

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

1.5 Collection purchases

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

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

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 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 entitlement in 2006-07 was £7,814,000 (2005-06: £7,369,000). The entitlement has been credited to income during the year.

The money is available for running costs, capital improvements and collection purposes. The sum of £602k (2005-06: £327k) has been designated by the Trustees for the purposes of capital projects. The sum of £20k (2005-06: 131k) has been designated by the Trustees for the purposes of collection purchases.

	2006-07 £000	2005-06 £000
Historic Royal Palaces Agency	<u>100</u>	<u>100</u>

4. Total resources expended

	Staff costs £000	Other direct costs £000	Depreciation / Disposals £000	Allocated Support Cost	2006-07 £000	2005-06 £000
Direct Costs						
Cost of generating funds						
Cost of generating voluntary income	76	105		21	202	177
Fund raising: cost of goods and other costs	306	375	55	245	981	924
Charitable activities						
Care of the collection	1104	235	472	917	2728	2715
Education	489	113	127	263	992	1169
Visitor Services	1415	1154	1184	1763	5516	5296
Governance		81			81	73
	<u>3390</u>	<u>2063</u>	<u>1838</u>	<u>3209</u>	<u>10500</u>	<u>10354</u>

Support Costs

Directorate	345	376		(721)		
Administrative support	629	244		(873)		
Shared services	542	1073		(1615)		
	<u>1516</u>	<u>1693</u>		<u>(3209)</u>		
	<u>4906</u>	<u>3756</u>	<u>1838</u>		<u>10500</u>	<u>10354</u>

Governance costs

	2006-07 £000	2005-06 £000
Trustee expenditure	25	26
Audit fees (All auditors' remuneration was in respect of audit work)	56	47
	<u>81</u>	<u>73</u>

4a Staff Costs

	2006-07 £000	2005-06 £000
Salaries and wages	3858	3773
Agency staff	74	104
National Insurance Contributions	266	266
Superannuation	658	600
Early Retirement Costs	50	31
Redundancy Costs		71
	<u>4906</u>	<u>4845</u>

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

	2006-07	2005-06
Cost of generating voluntary funds	2	1
Fundraising: cost of goods sold and other	22	31
Care of the collection	48	49
Education	18	14
Visitor Experience	99	100
	<u>189</u>	<u>195</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Total resources expended (continued)

Chief Executive

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

Employees receiving remuneration over £60,000:

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

	2006/07	2005/06
£90,001 - £95,000		1
£95,001 - £100,000	1	

Pension Scheme

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

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

For 2006-07, contributions of £651k (2005-06: £593k) 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 2006-07 (2005-06: £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 £24,722 (2005-06 £25,561).

4c Benefits in Kind

Employees received no Benefits in Kind during the year.

5. Collection objects

Of the £22k spent on collection purchases during the year £20k was capitalised and recognised in the balance sheet and £2k was charged to the Income and Expenditure account and to the SoFA.

In addition to the above, no objects were received by way of gift or bequest. The value recognised in the balance sheet in 2006-07 was Nil (2005-06: Nil)

As per Treasury requirements collection purchases were only valued from 1st April 2001. Total value of collection purchases from April 2001 is £965k.

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 2006-07 the charge was £1,788,000 (2005-06: £1,721,000)

7. Net Incoming/(Outgoing) Resources

	2006-07 £000	2005-06 £000
Net incoming resources is stated after charging:		
External auditor for audit work	30	22
Internal Auditor	25	24
Legal services	96	146
Traveling and subsistence costs	142	166

All auditors' remuneration was in respect of audit work

8. Fixed assets

	Land and Buildings	Plant and Machinery	Group and Museum Fixtures Acquisitions and for the Equipment collection		Donated Assets	Total
	£000	£000	£000	£000	£000	£000
Cost						
As at 1st April 2006	45728	3811	2244	945	355	53083
Additions			602	20		622
Transfers	(490)	490				
Disposals			(36)			(36)
Revaluations	3220	175	52			3447
As at 31 March 2007	48458	4476	2862	965	355	57116
Depreciation						
As at 1 April 2006	1668	331				1999
Charge for the year	1034	206	562			1802
Disposals						
Revaluation						
As at 31 March 2007	2702	537	562	0	0	3801
Net Book Value						
As at 31 March 2006	44060	3480	2244	945	355	51084
As at 31 March 2007	45756	3939	2300	965	355	53315
Charitable activities	44333	3939	2228	965	355	51820
Other activities	1423		72			1495
Total	45756	3939	2300	965	355	53315

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 storage space has been valued by Rushton International as at the 31 March 2006 with the value being adjusted by the use of indices in 2006.

A full valuation on all other fixed assets was also carried out by Rushton International as 31 March 2006. The values have been adjusted in 2006 using indices.

9. Stocks

	Group and Museum	
	2006-07	2005-06
	£000	£000
Stocks valued at cost	188	164
Less: provisions for publications and other slow moving stocks	(19)	(16)
	<u>169</u>	<u>148</u>

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

10. Debtors

	Group and Museum	
	2006-07	2005-06
	£000	£000
Trade debtors	10	14
Other debtors	216	207
VAT recoverable	133	97
Prepayments	134	152
Provision for bad debts	(5)	(2)
	<u>488</u>	<u>468</u>

There were no material balances outstanding with the Whole of Government Accounts bodies at 31 March 2007.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Creditors: amounts falling due within one year

	Group	
	2006-07	2005-06
	£000	£000
Trade creditors	19	13
Income Tax and Social Security	-	87
Other creditors	190	222
Accruals	396	233
	<u>605</u>	<u>555</u>
	Museum	
	2006-07	2005-06
	£000	£000
Trade creditors	19	13
Income Tax and Social Security	-	87
Other creditors	189	222
Accruals	396	233
	<u>604</u>	<u>555</u>

There were no material balances outstanding with the Whole of Government Accounts bodies at 31 March 2007.

12. Trading activities

	2006-07	2005-06
	£000	£000
Trading income	670	787
Cost of sales	(310)	(354)
	<u>360</u>	<u>433</u>
Gross profit		
Other costs	(341)	(317)
	<u>19</u>	<u>116</u>

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

	2006-07	2005-06
	Profit/(loss)	Profit/(loss)
	£000	£000
Leeds Shop	44	130
Fort Nelson Shop	(8)	4
Fort Nelson catering activities	(17)	(18)
	<u>19</u>	<u>116</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Contingent Liabilities

There were no contingent liabilities at 31 March 2007.

14. Capital Commitments

There were no capital commitments at 31 March 2007.

15. Analysis of group net assets between funds

	Group			Total
	Unrestricted Funds		Restricted Funds	
	General £000	Designated £000	£000	
Funds balances as 31 March 2007 are represented by:				
Tangible fixed assets		7086	46229	53315
Current assets	1328		137	1465
Current liabilities	(604)		(1)	(605)
Total net assets	<u>724</u>	<u>7086</u>	<u>46365</u>	<u>54175</u>

	Museum			Total
	Unrestricted Funds		Restricted Funds	
	General £000	Designated £000	£000	
Funds balances as 31 March 2007 are represented by:				
Tangible fixed assets		7086	46229	53315
Current assets	1328			1328
Current liabilities	(604)			(604)
Total net assets	<u>724</u>	<u>7086</u>	<u>46229</u>	<u>54039</u>

16. Statement of group funds

	1 April 2006 £000	Income £000	Expenditure £000	Revaluation £000	31 March 2007 £000
Unrestricted funds					
General funds	189	8888	(8353)		724
Designated funds	7024	622	(787)	227	7086
Total unrestricted funds	<u>7213</u>	<u>9510</u>	<u>(9140)</u>	<u>227</u>	<u>7810</u>
Restricted funds					
Land and Buildings	42641		(1012)	3157	44786
National Firearms Centre	1535		(39)	63	1559
Sponsorship and Donations	27	105	(112)		20
GIA		97	(97)		
Contribution to costs		100	(100)		
Total restricted funds	<u>44203</u>	<u>302</u>	<u>(1360)</u>	<u>3220</u>	<u>46365</u>
Total funds	<u>51416</u>	<u>9812</u>	<u>(10500)</u>	<u>3447</u>	<u>54175</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Statement of funds

	1 April 2006 £000	Income £000	Museum Expenditure £000	Revaluation £000	31 March 2007 £000
Unrestricted funds					
General funds	189	8888	(8353)		724
Designated funds	7024	622	(787)	227	7086
Total unrestricted funds	<u>7213</u>	<u>9510</u>	<u>(9140)</u>	<u>227</u>	<u>7810</u>
Restricted funds					
Land and Buildings	42525		(1012)	3157	44670
National Firearms Centre	1535		(39)	63	1559
Sponsorship and Donations		98	(98)		
GIA		97	(97)		
Contribution to costs		100	(100)		
Total restricted funds	<u>44060</u>	<u>295</u>	<u>(1346)</u>	<u>3220</u>	<u>46229</u>
Total funds	<u>51273</u>	<u>9805</u>	<u>(10486)</u>	<u>3447</u>	<u>54039</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.

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

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.

17. Cash flow information

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

	Group and Museum	
	2006-07 £000	2005-06 £000
Net incoming/ (outgoing) resources	2759	2467
Interest receivable	(24)	(13)
Depreciation	1802	1565
Loss on disposal of fixed assets	36	
Donated assets		
Revaluation of fixed assets	(3447)	(2030)
(Increase) / decrease in stocks	(21)	(2)
(Increase) / decrease in debtors	(20)	25
Increase / (decrease) in creditors	50	(15)
Net cash inflow from operating activities	<u>1135</u>	<u>1997</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Cash flow information (continued)

b) Analysis of cash flows

	Group and Museum	
	2006-07	2005-06
	£000	£000
Returns on investment and servicing of finance		
Interest received	24	13
Net cash inflow for returns on investment and servicing of finance	<u>24</u>	<u>13</u>
Capital expenditure and financial investment		
Tangible fixed assets	(622)	(1993)
Net cash outflow from capital expenditure and financial investment	<u>(622)</u>	<u>(1993)</u>

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

	Group and Museum	
	2006-07	2005-06
	£000	£000
Increase/(decrease) in cash in the period	<u>537</u>	17
Increase/(decrease) in net funds in the period	<u>537</u>	17
Net funds at 1 April	<u>271</u>	254
Net funds at 31 March	<u><u>808</u></u>	<u><u>271</u></u>

d) Analysis of net funds

	Group and Museum		
	1 April 2006	Cash flow in period	31 March 2007
	£000	£000	£000
Cash	<u>271</u>	<u>537</u>	<u>808</u>
Net funds	<u><u>271</u></u>	<u><u>537</u></u>	<u><u>808</u></u>

18. Related party transactions

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

The Royal Armouries also has a number of financial transactions with the following parties; Royal Armouries (International) plc, Historic Royal Palaces, 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)

	2006-07 Income £000	2006-07 Costs £000	2006-07 Debtor £000	2006-07 Creditor £000
Frazier International History Museum - income associated with a recent loan exchange	16	-	-	-
Historic Royal Palaces - contribution to costs (£100k), sponsorship and retail income. Costs relate to Tower entrance fees and sundry charges	181	7	73	-
Royal Armouries (International) plc - roof compensation (£106k), labour and sundry income. Costs relate to the provision of catering facilities	149	20	4	-

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

19. Financial instruments

The Royal Armouries has no borrowings and relies primarily on department grants for its cash requirements. Grant in Aid accounts for 81% of income (2005-06: 70%). It is therefore not exposed to liquidity risks. It also has cash deposits of £808k (2005-06: £271k), and all material assets and liabilities are denominated in sterling, so it is not exposed to interest risk or currency risk.

20. Financial commitments

As at 31 March 2007 the Royal Armouries had annual commitments under a non-cancellable operating lease for land as follows:

	2006-07 £000	2005-06 £000
Lease expiring in 2995	337	229

21. Land Transactions

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

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

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

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

22. Post Balance Sheet Events

The financial statements were authorised for issue on 25 October 2007.

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