



Royal Mint Annual Report | 2004-05

Royal Mint Board of Directors

NON-EXECUTIVE DIRECTORS

Hugh Beavor

Chairman

Robert Guy

Chairman of the Audit Committee

Jan Smith

David Wertheim

Chairman of the Remuneration Committee

EXECUTIVE DIRECTORS

Gerald Sheehan

Chief Executive

Tony Burnell

Director of Human Resources

Phil Carpenter

Director of Circulating Coin Production

Keith Cottrell

Director of Sales

Huw Edwards

Director of Finance

Michael Slater

(retired April 2005)

Alan Wallace

Director of Collector Coin

BOARD SECRETARY

Martin Cragg

Royal Mint, Llantrisant CF72 8YT

Telephone: 01443 623058

E-mail: informationoffice@royalmint.gov.uk

Website: www.royalmint.com

Bankers

Bank of England

External Auditors

Comptroller and Auditor General

Internal Auditors

Mazars LLP, Chartered Accountants



The Accounts of the Royal Mint Trading Fund as at 31 March 2005, together with the Certificate and Report of the Comptroller and Auditor General thereon, are prepared pursuant to section 4(6) of the Government Trading Funds Act 1973. (In continuation of House of Commons Paper No 688 of 2003-04.) Presented pursuant to Act 1973, c.63, s.4(6).

HC 242

Ordered by the House of Commons to be printed 18 July 2005.

Contents

Review of the Year	
Chairman's Statement	3
Chief Executive's Report	4
Financial Summary	5
Operating and Financial Review	6
Circulating Coins and Blanks	9
Collector Coin	13
People	16
Royal Mint Advisory Committee, 2004-05	18
Royal Mint Trading Fund	
Financial and General Reports	22
Statement of Trading Fund's and Accounting Officer's Responsibilities	24
Corporate Governance – Statement on Internal Control	24
The Certificate of the Comptroller and Auditor General to the Houses of Parliament	27
Operating Account	28
Balance Sheet	30
Cash Flow Statement	31
Notes to the Accounts	32
Report by the Comptroller and Auditor General	39



Chairman's Statement

This has been a difficult but pivotal year for the Royal Mint. Significant progress has continued, improving both productivity and unit costs. However, lower United Kingdom coin demand and transitional problems in Circulating Coin production prevented the Mint from showing its true potential this year.

The Royal Mint's Circulating Coin business is in the middle of an ambitious programme to become the lowest cost producer in this highly competitive international market. Several important steps have already been implemented, including the expansion of its highly efficient plating plants, the streamlining of its foundry process and several new managerial appointments. Part of this programme involves the adoption of flexible working throughout the business. This has been the norm in most of the private sector for a considerable time, offering benefits to both employees and to the business. In pilot schemes in the Collector Coin side of the business, the advantages have been grasped by many employees who like the scope for individual and team initiative as well as the opportunity, at times, to finish work earlier. The agreement of the Circulating Coin employees has initially been withheld but in the interests of the future of the business and of the employees, it is now due.

Despite the problems suffered this year, the outlook for the coming year is favourable. In the international circulating coins and blanks market the withdrawal of some competitors has reduced excess capacity. A responsible approach to pricing policy, underwritten by a continued focus on productivity improvements and a lower cost base, will create the opportunity for growth in market share. In Collector Coin and *Classics* the Mint can develop the demand for

commemorative products with the improved skills available and be ready to take full advantage of the demand for products associated with Her Majesty the Queen's eightieth birthday.

The coming year will be one of historic change when the Royal Mint is incorporated as a Government-owned company – an evolution from a Civil Service department to a business with clearer commercial goals. This is the right structure for a business operating in changing and very competitive markets and which, to be successful, must attract high-calibre employees. The groundwork for incorporating the business is considerable. Much has been done but a heavy programme of work remains to put everything correctly in place by the end of this calendar year.

The Board is appreciative of the extremely good work put in by employees and their understanding of the difficult market conditions in which their business operates. We thank Michael Slater who recently retired and we wish him well in his new activities.

Phil Carpenter joined the Board at the end of the year and brings with him most valuable technical and operational skills.

Operating a manufacturing business in highly-competitive and volatile markets requires strong and agile leadership. I know that each member of the Board, both Executive and Non-Executive, is committed to setting the Royal Mint on a course of sustained profitable growth. There have been set-backs this year but the right attitudes are being promoted throughout the organisation as well as the skills necessary for achieving the full potential of the business.

Hugh Beevor

Left: **One pound coins dated 2005 will bear a depiction of the Menai Bridge by Edwina Ellis.**
(Photolibrary Wales)

Below and right: **To mark the 400th anniversary of the Gunpowder Plot the Mint issued a commemorative £2 coin, the reverse of which has been designed by Peter Forster.**

In December 2004 representatives of the Royal Thai Mint visited the site at Llantrisant.



Chief Executive's Report

With a £2 million operating loss, the results for the year are disappointing, particularly in view of the recovery in profits that had been achieved over the previous two years. This loss is despite a very significant increase in productivity and cost reduction in all areas.

Demand for United Kingdom circulating coin was lower than expected at 1.4 billion coins. The Mint was successful, however, in securing an increase in orders for overseas coins and blanks, particularly in the second half of the year. Difficulties were initially encountered in expanding production volumes and, in the fourth quarter, in commissioning new furnaces. I am confident that the Mint has learnt from these problems and is now well placed to take full advantage of the encouraging prospects that lie ahead.

The Collector Coin business had a mixed year. The absence of a major thematic event resulted in a decrease in the sales of collector coins. However, production departments achieved very impressive increases in productivity, helped by new flexible working schemes that were introduced on a trial basis.

Royal Mint *Classics* performed well below the targets set. The appointment of new staff in this area, and their focus on product development and a more selective approach to promotional expenditure, improved the situation by the end of the year.

Sales of £99.6 million were higher than last year (£89.9 million) but the impact of lower than expected demand for United Kingdom coins, major increases in steel and energy prices, the initial difficulties in increasing production volumes and the lower profits achieved by the Collector Coin business resulted in a loss of £2 million. Although this is a set-back, the wide-ranging improvement initiatives and restructuring undertaken, place the Mint in a strong position to respond to market opportunities and return to profitability in 2005-06.

Sales margins are continuing to show signs of recovery. The Circulating Coins and Blanks business has already secured substantial orders extending over the next twelve months. The international market for circulating coins is progressively moving from homogeneous alloys to lower-cost plated products and the Mint is well positioned to take advantage of this change.

The prospects for Collector Coin are also encouraging and although only modest growth is

forecast for the coming year the targets are realistic and with the new management appointments the Mint is well placed to take full advantage of strong market potential.

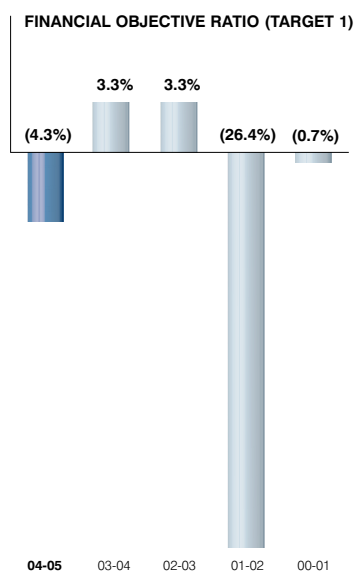
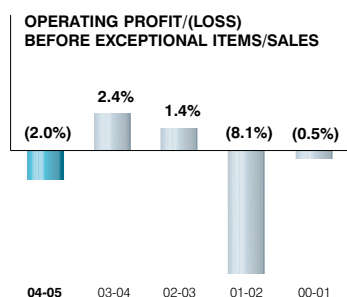
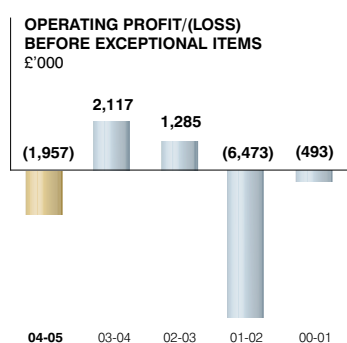
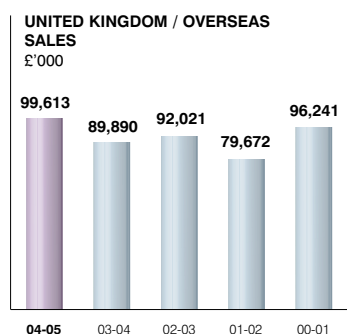
In my Report last year I referred to the importance of introducing a system of flexible working that would promote a much more efficient use of resources, would help to control costs and would allow the Mint to respond more effectively to changes in the market. Advances have been made in implementing the new working arrangements but more remains to be done to ensure that the full benefits of enhanced flexibility are realised. Completing the introduction of the new system of flexible working will be crucial to the Mint's future and its successful implementation will enable the full benefits of higher production volumes to be realised. Opportunities are opening up both internationally and in the domestic Collector Coin business and it is important that everyone at the Mint maintains clear determination to seize them.

The contribution of the Non-Executive Directors, under the chairmanship of Hugh Beevor, has been very valuable in focusing attention on the fundamentals of business success. At the start of the year Michael Slater, who had previously been Director of Circulating Coin Production, took responsibility for a number of key improvement initiatives in relation to both the Circulating and Collector Coin businesses prior to retiring in April 2005. He has made a valuable contribution to the development of the Mint's production process in recent years. Phil Carpenter was appointed as acting Director of Circulating Coin Production, a position that was confirmed at the end of the financial year.

Within the next twelve months the Mint will become a Government-owned company. The objective of this change in status is to enhance the commercial attitudes within the Mint and to focus even more on the competitive business requirements of the Circulating and Collector Coin markets. The Mint could not have remained in business for over 1000 years without understanding the need for change and the benefits it can bring. The change in status offers the chance to build on the traditions that have contributed to the Mint's longevity with the freedom to embrace the reform that will lead to its future success.

Gerald Sheehan

Financial Summary



	2004-05 £'000	2003-04 £'000	2002-03 £'000	2001-02 £'000	2000-01 £'000
MODIFIED HISTORICAL COST BASIS:					
United Kingdom sales	55,311	62,161	66,489	54,867	50,492
Overseas sales	44,302	27,729	25,532	24,805	45,749
	<u>99,613</u>	<u>89,890</u>	<u>92,021</u>	<u>79,672</u>	<u>96,241</u>
Operating profit/(loss) before exceptional items	(1,957)	2,117	1,285	(6,473)	(493)
Exceptional items	-	-	900	(12,000)	-
Operating profit/(loss)	<u>(1,957)</u>	<u>2,117</u>	<u>2,185</u>	<u>(18,473)</u>	<u>(493)</u>
Profit/(loss) for the year	(3,245)	1,294	1,357	(19,301)	(683)
Dividend	-	(750)	-	-	-
Retained profit/(loss) for the year	<u>(3,245)</u>	<u>544</u>	<u>1,357</u>	<u>(19,301)</u>	<u>(683)</u>
Capital employed at 31 March	59,564	63,084	63,278	69,514	70,483
Operating profit/(loss) before exceptional items/sales	(2.0%)	2.4%	1.4%	(8.1%)	(0.5%)

Key Ministerial Targets

		2005-06	2004-05	2003-04	2002-03
Target 1					
To achieve an average rate of return on net assets	Target	2.9%	4.9%	4.0%	11.0% ^a
	Outturn	-	(4.3%)	3.3%	3.3%
Target 2					
UK Circulating Coin					
Delivery of accepted orders from UK banks and Post Office	Target	99.0% within 11 days	99.0% within 11 days	99.0% within 11 days	98.0% within 11 days
	Outturn	-	99.3%	98.6%	99.8%
Target 3					
UK Collector Coin					
Delivery of orders to individual UK customers, measured from receipt of order or published due date	Target	85.0% within 14 days	85.0% within 14 days	95.0% within 14 days	95.0% within 14 days
	Outturn	-	83.0%	75.0%	58.0%
	Target	65.0% within 7 days	65.0% within 7 days	60.0% within 7 days	-
	Outturn	-	70.0%	61.0%	-
Target 4					
Medals					
Orders delivered by agreed delivery date	Target	98.0%	98.0%	97.0%	97.0%
	Outturn	-	99.3%	98.4%	97.5%
Target 5					
Quality					
Collector products accepted by individual UK customers	Target	99.7%	99.7%	99.7%	99.7%
	Outturn	-	99.3%	99.2%	99.2%

^a Within the five-year period 1 April 2001 to 31 March 2006

In addition to the above, ministerial targets also focus on the cost of producing circulating coins and blanks. This information is commercially sensitive and is reported separately to the Treasury.

Operating and Financial Review

for the year ended 31 March 2005

The Royal Mint's activities consist of:

- the manufacture and distribution of United Kingdom circulating coins under a fixed-term contract with the Treasury;
- the manufacture of circulating coins and blanks for overseas mints and central banks;
- the marketing, manufacture and distribution (both retail and wholesale) of United Kingdom and overseas collector coins and medals;
- the manufacture of official annual medals; and
- the sale of jewellery and non-coin gifts and collectibles under the Royal Mint *Classics* brand.

The manufacturing, distribution and marketing activities are all based at the Royal Mint's integrated site in Llantrisant, South Wales.

As a Trading Fund, the Royal Mint operates on commercial lines and is required under Section 4(i) of the Government Trading Funds Act 1973 to "*manage the financial operations so that the revenue of the fund is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to revenue*". In practice this statutory requirement is generally taken to mean that whilst the Royal Mint is permitted to record an operating loss in any one financial year, this loss should be made good in subsequent years so that financial "break-even" is achieved.

In addition the Mint is required under the 1973 Act to "*achieve such further financial objectives as the responsible Minister may determine*". For the period 1 April 2001 to 31 March 2006, the financial target set by the Chancellor of the Exchequer required the Mint to achieve a rate of return of 11%. The Mint, however, has experienced difficulties in meeting this financial target. The causes of these difficulties are discussed below. The Mint's performance in the year ended 31 March 2005 compared with the financial target and other key ministerial targets is set out on page 5.

Objectives and strategy

Trading conditions in the overseas circulating coin and blanks market declined significantly after the millennium, with worldwide over-capacity

amongst producers and, as a result, a significant decrease in prices. In addition, the terms of the Mint's contract with the Treasury for the production of United Kingdom coinage result in the prices received by the Mint decreasing in real terms each year.

Coin manufacture has historically been a capital-intensive industry that tends to carry a high proportion of fixed and semi-fixed costs. The strategy adopted in relation to circulating coins and blanks in recent years has been based on reducing the cost base in order to compete effectively in the increasingly competitive worldwide market. The strategic objectives for the Circulating Coins and Blanks business are to:

- increase operational flexibility to be able to react quickly to variations in demand;
- continue to improve the Mint's competitive cost position; and
- create differentiation by the quality of products and services.

A wide-ranging restructuring programme was implemented in March 2002 involving initially the loss of 200 permanent staff through voluntary redundancies and, more recently, changes to the working practices of the remaining employees. In addition, the Mint has continued to introduce a capital-investment strategy directed at cost reduction.

The Collector Coin business has continued to implement its strategy directed at:

- reducing its reliance on major event-driven products;
- achieving consistent growth in sales and profitability through product development and the expansion of its customer database;
- maintaining a high level of customer service; and
- improving productivity and reducing costs.

Performance in the year ended 31 March 2005

The Mint has experienced a difficult trading year incurring an operating loss of £2 million.

	2004-05 £m	2003-04 £m
Turnover:		
Circulating coin		
UK	25.0	26.6
Overseas	34.5	18.7
Collector coin	40.1	44.5
	99.6	89.9
Operating costs:		
Metal and bought-in costs	(44.5)	(35.7)
Staff costs	(24.1)	(22.7)
Other costs	(33.0)	(29.5)
Operating (loss)/profit	(2.0)	2.1

Although turnover has increased by 11% compared with the year ended 31 March 2004, this is largely as a result of higher metal costs. Nickel, copper and steel prices increased during the year. Non-ferrous metal costs are hedged at the time that sales orders are secured and the higher metal costs are therefore reflected in the higher turnover. However, there is no effective futures market for steel and the results for the year are adversely affected by higher steel prices of approximately £0.7 million.

United Kingdom sales (excluding the impact of higher metal costs) were 23% lower than sales in the year ended 31 March 2004 and 13% lower than the forecast for the year. The lower United Kingdom sales have been offset by higher overseas sales, but the overseas markets have continued to be extremely competitive and prices remained depressed especially in the early part of the year. Recently there have been encouraging signs that selling prices are returning to economic levels.

However, despite the challenging market conditions, the Circulating Coins and Blanks business benefited from a strong overseas order book for most of the year and production capacity was increased to meet the higher volumes. The increase in capacity is reflected in higher staff and other costs, but difficulties were experienced in achieving the planned production output as a result of:

- problems in attaining the required quality for certain orders with demanding specifications during the first half of the year; and

- delays in the implementation of new melting furnaces in the fourth quarter of the year.

These difficulties have now been resolved and the business is well placed to benefit from improvements in market conditions.

Cost reduction initiatives continued to be pursued vigorously and, despite the difficulties experienced in achieving the planned production output, the unit production cost reduced by 11% compared with the previous year and was 29% lower than the year ended 31 March 2002 (prior to the restructuring).

The Collector Coin business had a disappointing year. The absence of a major thematic event adversely affected the demand for coin products. Poor sales of non-coin gifts and collectibles were attributable in part to the loss of key personnel in the early part of the year. The marketing activities have been reorganised in the year to provide a greater emphasis on product development and the outlook for this part of the business is encouraging.

The loss after interest was £3.2 million compared with a profit of £1.3 million for the year ended 31 March 2004. Interest costs of £1.4 million were high as a result of the increased use of short-term borrowing facilities. The impact of the loss incurred in the year resulted in an increase in the net debt from £13 million to £15 million. Stock management initiatives have resulted in significant reductions in working capital. Continuing focus on cash generation in 2005-06 is a key priority.

Looking to the future

World demand for circulating coins and blanks is expected to remain strong with, in particular, an increase in the demand for plated-steel products where the Royal Mint is the market leader.

The emphasis on improving flexibility and reducing unit production costs will continue. The business will incur significant pension and utility cost increases. Future capital investment will concentrate on cost reduction.

Product development initiatives are expected to reduce Collector Coin's dependence on major thematic events in the medium term and enable the business to achieve sustainable growth. In addition, the customer database will continue to be enhanced by targeting appropriate promotional activity and generating new customers.



.50.
FIFTY. *adj.*
s. [fɪfʔɪz], Saxon.
PENCE. *n. s.*
plural of penny.
JOHNSON'S
DICTIONARY 1755



Circulating Coins and Blanks

ISSUES OF UNITED KINGDOM CIRCULATING COINS 2004-05

Denomination	Face Value £m	Number of Pieces Millions
£2	40.218	20.109
£1	56.756	56.756
50 pence	22.165	44.330
20 pence	22.711	113.555
10 pence	9.441	94.410
5 pence	13.291	265.820
2 pence	4.618	230.900
1 penny	5.644	564.400
Total	174.844	1390.280

ESTIMATED NUMBER OF COINS IN CIRCULATION 31 December 2004

Denomination	Face Value £m	Number of Pieces Millions
£2	498.400	249
£1	1410.158	1410
50 pence	369.069	738
20 pence	425.572	2128
10 pence	155.707	1557
5 pence	178.918	3578
2 pence	126.785	6339
1 penny	103.597	10360
Total	3268.206	26359

United Kingdom

- The primary responsibility of the Royal Mint is the provision and maintenance of the United Kingdom coinage. In practice the Mint must produce sufficient quantities of each denomination to meet public demand and it must maintain stocks at a level that ensures demand can be met satisfactorily. In all these respects, this year the Mint again fulfilled its objectives.
- Demand for United Kingdom coins was lower than had been estimated at the beginning of the year. Issues of 1.4 billion pieces compared with a planned figure of 1.7 billion, with the most likely explanation being the lower than expected demand for coins on the high streets in the lead up to Christmas. In addition, there was reduced demand from the Post Office which has been attributed to the impact of the Automated Credit Transfer of State Benefits (ACT) and the more efficient recycling of coins than in previous years.
- A few years ago members of the Association for Payment Clearing Services (APACS), which includes representatives of United Kingdom banks and the Post Office, agreed to renew efforts on coin forecasting and also agreed to guarantee a percentage annual forecast as a firm order. Since that time more data has been shared amongst members on coin stocks and perceived demand. Managers at APACS have also been experimenting with various models to improve forecasting and the methodologies of several other countries have been studied. The ultimate aim behind this work, which would be of benefit to the Mint and the cash-handling sector, is to continue to improve short-term demand management.
- For 2005-06 the management of APACS has agreed to increase the minimum guaranteed orders, which means that in total it will be expected to draw at least 1.1 billion coins of the 1.5 billion planned.

Left: **Samuel Johnson** published his famous *Dictionary of the English Language* 250 years ago and to mark the occasion special 50 pence pieces, bearing a reverse design by Tom Phillips RA, have been released.

(Private Collection/
www.bridgeman.co.uk)

Right: **Investment in the Coining Press Room** has included a new press which can strike coins at speeds of up to 850 a minute.

(Molyneux Associates)





Overseas

- The Mint was the chosen supplier by fifty-seven countries, the same number as last year. Several major contracts were won, including significant orders from the Philippines and Venezuela, and for the first time issues of coins and blanks exceeded 5 billion pieces.
- The Mint's prime European market position was maintained with exports to twelve European countries, including significant volumes of copper-plated steel blanks for the European mints.
- In volume terms, the planned total figure of 4.561 billion coins and blanks was exceeded by 495 million pieces. Overseas, the Mint shipped 1.259 billion coins, against a planned target of 1.175, and 2.405 billion blanks, again in excess of planned figures. The Mint's output performance establishes it as the largest mint in the industry outside the United States.
- The overseas planned figures for 2005-06 are 1.48 billion coins and 2.35 billion blanks, of which over 60% have been secured at improved margins. This reflects a market situation of demand and supply showing greater signs of convergence.
- The Mint continues to uphold its reputation as the world's premier exporting mint. The Sales team, with continuing support from De La Rue International Ltd, have been successful in winning orders internationally, cementing

Left: **An important order for circulating Kenyan coins was secured during the year.**

Below: **Part of the extensive coin storage facilities at the Royal Mint.**
(Molyneux Associates)



relations with existing customers and looking for new business elsewhere. De La Rue has, however, given notice of its intention to end its current arrangement with the Royal Mint with effect from April 2006 as a result of a change in its business focus. Plans are being put in place to ensure continuity in global sales coverage.

- Royal Mint Services, a joint venture with De La Rue, enjoyed a profitable year but it will cease trading in its present form in recognition of the decline in the market for independent minting consultancies.

Production

- Although orders remained healthy and production volumes were strong, this did not translate into a good financial performance. Actions have been taken throughout the year to deal with the problems and some of the more important measures are detailed below.
 - The teams within the coin production areas have been restructured.
 - The new Manufacturing Information System went live at the start of June 2004.
 - The installation of new furnaces in the foundry was undertaken over the Christmas period to improve efficiency and reduce further the unit costs for non-ferrous strip production. Difficulties have been encountered in commissioning the new furnace and work is ongoing to achieve the full potential of this investment.
 - Significant improvements in nickel and copper-plating outputs were achieved by increasing process stability and plant availability. This has reinforced the Mint's position as the leading world supplier in this area.
 - The trend in recent years of increasing direct employee productivity and reducing unit costs was maintained. Productivity increased by 16% on 2003-04, while unit costs were reduced by 11%.



Collector Coin

Left: A portrait of Nelson by James Butler RA and a battle scene by Clive Duncan FRBS are the reverse designs that have been employed on the two crown pieces released to mark the 200th anniversary of the Battle of Trafalgar.

Below: Every year members of the Fleur-de-Coin Club, important and loyal Collector Coin customers, have the opportunity of touring the factory and meeting Mint employees.



- Collector Coin activity and results were affected by the lack of major thematic events and in addition the performance of *Classics* was below expectations. The business has continued to pursue a strategy of reducing dependence on major anniversaries. In this respect the marketing departments were restructured to ensure more attention is paid to product development and this in turn will support the ongoing strategy of creating a wider range of collecting programmes.
- Within production departments of Collector Coin, trial Flexible Working Time schemes were introduced successfully and have already achieved substantial improvements in throughput rates and productivity.

United Kingdom Coins

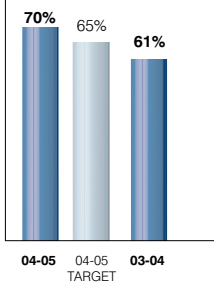
- Despite the absence of a major thematic event, the commemorative programme in 2004-05 has included the 400th anniversary of the Gunpowder Plot and the 200th anniversary of the Battle of Trafalgar. The business has continued to benefit from a combination of good designs, interesting themes and a recognition of the importance of high standards of customer service.

- October 2005 will be the 200th anniversary of one of the most significant naval battles in history – the Battle of Trafalgar. To mark Nelson's famous victory, two crown pieces were authorised for release: one designed by Clive Duncan FRBS depicting the mêlée of the battle and featuring Nelson's flagship, *The Victory*; the other, designed by James Butler RA, pays tribute to Nelson on a more personal level, drawing attention to the character of the man who led the fleet and was mortally wounded during the action. Both coins have been well received by collectors.
- The 400th anniversary of the Gunpowder Plot has been commemorated on a new £2 coin. Peter Forster's design shows a mace, crosier and sword as symbols of State, and their repeating pattern alludes to the survival under threat of the British State. The circular arrangement is also suggestive of a Catherine wheel and the surrounding stars are a further reference to fireworks.
- The second £1 coin in the new series of four representing the constituent parts of the United Kingdom was issued at the beginning of 2005. All four designs are by the accomplished wood-engraver Edwina Ellis and, on the latest one, Wales is represented by Thomas Telford's Menai Bridge.
- A 50 pence was issued to celebrate the 250th anniversary of Samuel Johnson's *Dictionary of the English Language*. Designed by Tom Phillips CBE RA, the design illustrates the idea behind the dictionary – the definition of words – and by choosing the words FIFTY and PENCE the design in a sense defines the coin.
- One of the most talked about coins issued in recent times has been the sovereign which in 2005 carried a new treatment of St George and the dragon by the herald painter Timothy Noad. To seek an alternative to Benedetto Pistrucci's classic St George was no small challenge and, although it has received a mixed reception, both the proof and bullion versions have sold well since their launch in January.



Above: Kilo coins on the theme of Trafalgar were struck in gold and silver for Alderney.

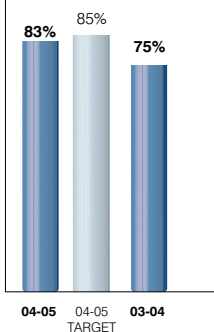
DESPATCHING ORDERS WITHIN 7 DAYS OF RECEIPT



Special Issues

■ The Battle of Trafalgar provided the opportunity for the Royal Mint's engravers to collaborate on a special design that appeared on kilo coins struck in gold and silver for Alderney. A recent innovation for the Mint, these magnificent pieces with low issue limits test the skill of the Mint's designers and engineers, and the success of the coins is testimony to determined teamwork. At the same time, the coins provide an appealing product in a niche market within the overall range.

DESPATCHING ORDERS WITHIN 14 DAYS OF RECEIPT



■ A special series of crowns was developed with Alderney, Guernsey and Jersey depicting famous characters and ships that have featured throughout the Royal Navy's colourful history. In co-operation with a number of issuing authorities, the Mint also developed special collections to commemorate the sixtieth anniversary of the end of the Second World War. Including coins from Russia, Canada, Australia, Poland, USA and France, these silver and gold sets have already sold well in overseas and domestic markets.

Customer Service

- The target for despatching orders within seven days of receipt was set at 65%, an objective that the Mint exceeded, achieving a figure of 70%. Although performance fell just short of the ministerial target for despatching orders within fourteen days, a clear improvement was evident compared to last year.
- The telemarketing team is now well established and during the year it generated significant sales. The members of the team are an important point of contact with customers and the relationships that have been built up provide invaluable feedback on marketing activities and help the Mint to deliver a better standard of customer service.

Web Site

- The Royal Mint's web site was re-launched with the aim of improving its functionality and ensuring compliance with recent legislation regarding accessibility. With the assistance of consultants, the IT team and marketing specialists completed the programme on schedule for a February 2005 launch.

Royal Mint Classics

- Sales of jewellery and non-coin gift products did not perform as well as expected during the year mainly because of a failure to develop sufficient numbers of new products. The focus, with a new Product and Customer Services Director in post, will be to target new lines to customers and undertake substantial product testing before rolling out to larger audiences.
- Customer retention, and the acquisition of new names for both coin and Royal Mint Classics' customers, will be a major objective in the coming year and a new creative and media agency has been appointed to help with this work.

Official Medals

- The Medal Unit worked to complete the bulk orders for the Iraq Medal and Suez Canal Medal. While meeting the demands of the Army Medal Office, other significant orders from the Central Chancery of the Order of Knighthood, the Home Office and overseas governments were not neglected.



Above: **Medals commemorating the Grand Slam of the Welsh Rugby Union team in the Six Nations championship were issued soon after the historic success.**

Below: **MBEs and OBEs, which are amongst the most well known of official awards, are once more being produced at the Mint.**

■ After a break of over ten years the Royal Mint is once again manufacturing OBEs and MBEs. It is especially gratifying that these prominent awards, acknowledging the lifetime achievements of many members of the public, should be struck to the high standards to which the Mint prepares all its official medals and decorations.

Commemorative Medals

■ The announcement of the wedding of His Royal Highness Prince Charles to Mrs Camilla Parker Bowles challenged the Mint's capability to design and manufacture a special commemorative medal within a very short period in time for the event. Using a design showing the Arms of the Prince of Wales for the obverse and a representation of the Prince of Wales Feathers on the reverse, the challenge was met and the medal has proved extremely popular. The added interest is that, unlike many of the commemorative items produced for the occasion, the Mint's medal actually bears the correct date of the wedding.

■ The centenary of the London Symphony Orchestra was celebrated by the striking of a limited-edition medal which was presented to members of the orchestra and administrative staff in the orchestra's centenary year. The design features the orchestra's earliest logo, introduced in the 1930s, and also its most recent identity.

■ Following the issue in 2003-04 of a medal to commemorate England's winning the Rugby World Cup, it was with great pleasure that the Royal Mint, in conjunction with the Welsh Rugby Union, was able to issue a Welsh Grand Slam Medal in March 2005. This was eagerly sought after by those who collect sports memorabilia as well as by Welsh rugby supporters.

Below right: **The Mint's selective gold-plating capacity has increased as a result of recent investment in new facilities.**
(Molyneux Associates)



People

Employee Relations

- The major change programme for 2004-05 was the introduction of Flexible Working Time (FWT), which was designed to encourage productivity improvements and establish a better match between hours worked and production demand. Contracts based on the new system were adopted by non-industrial employees in July 2004 as part of the annual pay negotiations.
- Industrial employees rejected the changes at three separate ballots. Nevertheless, several teams of industrial employees have entered pilot FWT schemes and it is already evident that there will be significant benefits to the business and to the employees themselves. Consequently, negotiations are ongoing with regard to the universal implementation of FWT throughout the Mint.
- During the year, work started on a new pay and grading system for non-industrial employees, the target date for its introduction being July 2005.

Employment and Attendance

- On 31 March 2005 the Mint had 779 permanent employees compared to 795 on 1 April 2004. In addition the Mint employed casual labour in response to fluctuations in demand. The average number employed is set out in Note 5 to the Accounts.
- Improved monitoring and better management has ensured that absence levels have been reduced.

Recruitment and Retention

- Permanent recruitment continued at a low level with only essential positions being filled. All appointments are made on merit and on the basis of fair and open competition.

Development and Training

- The average number of training days for the year was 6.2, compared to 8 last year and the Mint's commitment of 5 days per year.
- Following a review in October 2004, the Mint remains accredited to the Investors in People standard.
- In conjunction with Cardiff Business School, through a series of workshops, changes in working practices were introduced regarding product development, process mapping and lean manufacturing.

SUMMARY OF RECRUITMENT, 2004-05

Unified Broad Bands	Previous Non-Industrial Grade	Successful (including reserves)		Recruited	
		Male	Female	Male	Female
1	B	-	-	-	-
2	C	-	1	-	1
2	D	3	-	1	-
3	F	-	-	-	-
4	G	1	3	1	3
4	H	6	3	4	3
5	J	4	1	3	1
5	K	6	11	6	9
	CB2	4	-	2	-
	MSB3	6	-	6	-
	SSB3	4	3	3	3

Safety, Health & Environment

- As a responsible business the Royal Mint seeks to achieve high standards of business ethics and is committed to meeting its obligations and responsibilities. It recognises that business success brings with it the obligation of effective stewardship and responsible behaviour. Safety, health and environmental management systems aim for continuous improvement beyond basic legal compliance which involves placing strong emphasis on looking after the workforce, being environmentally responsible and maintaining a commitment to sustainable development.
- The following performance measures indicate the Mint's continuing progress towards these goals.
 - The results of external safety, health and environment audits indicate that continuous improvement is being achieved both from previous performance and the targets that have been set.
 - However, one reportable environmental incident occurred in May 2005, where a discharge to a river of water containing a high level of chlorine took place.
 - There has been an increase in the total number of accidents within this period but reportable accidents still remain below the HSE's national incidence rate for manufacturing industry.
- During January 2005, in order to comply fully with the Integrated Pollution, Prevention and Control Regulations (IPPC), an application was made by the Mint for a permit to operate. A permit was secured under the control of these regulations and issued to the Mint by the Environmental Agency. All conditions of the IPPC permit were satisfied during the period with no non-compliances noted.
- The second phase external audit, as part of the accreditation process to the environmental standard BS 14001, was carried out. It concluded that significant progress had been made and recommended that progress to the third and final phase of the accreditation process would take place in July 2005.
- The Royal Mint hosted a successful rehearsal of the Off-Site Emergency Plan for Rhondda Cynon Taf in which all relevant emergency services, local authorities and agencies took an active part.

Right: **The introduction of Flexible Working pilot schemes in the Proof Coin Unit has benefited both the Mint and employees.**
(Molyneux Associates)



Royal Mint Advisory Committee, 2004-05

The Committee, which operates independently of the Royal Mint and whose full title is the Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations, was established in 1922 with the personal approval of King George V. Its original purpose was to raise the standard of numismatic art and this remains its primary concern, being charged on behalf of the Chancellor of the Exchequer as Master of the Mint with the recommendation of all new designs for United Kingdom coins and official medals.

During the year the Committee met on four occasions, examining designs for a range of coins marking important anniversaries in the history of Britain. At the first meeting, held at Cutlers' Hall in London on 1 April, decisions were reached on designs for the Nelson and Trafalgar crowns, the Gunpowder Plot £2 coin and the Samuel Johnson 50 pence. Peter Forster's design for the Gunpowder Plot was his first coinage design. Clive Duncan FRBS too achieved success for the first time with his treatment of the Battle of Trafalgar. With his portrait of Nelson being recommended, James Butler RA has now established himself as an accomplished numismatic artist. The selection of a design by Tom Phillips RA for the coin marking the 250th anniversary of Johnson's dictionary makes this his second United Kingdom coin. Members also had the opportunity to comment on the latest Britannia design by Philip Nathan which depicts

Britannia in a traditional seated pose.

The next meeting of the Committee took place at the Treasury on 21 September and members were presented with a very full agenda. At the meeting Timothy Noad's reworking of the story of St George slaying the dragon was selected as a new reverse design for the sovereign. With the sixtieth anniversary of the end of the Second World War taking place in 2005 the Committee examined designs for a special £2 coin and, from a selection of twenty-eight drawings, two were thought to have sufficient promise to be developed as plaster models. These issues aside, commemorative coins for 2006 formed the main part of the Committee's deliberations, including a crown piece for the eightieth birthday of Her Majesty the Queen, a pair of £2 coins for the 200th anniversary of the birth of the engineer Isambard Kingdom Brunel and 50 pence pieces marking the 150th anniversary of the Victoria Cross. Limited competitions had been organised for each of these subjects and members sifted through a total of 120 designs. For the Brunel £2 coins and the Victoria Cross 50 pence pieces a short list of drawings was selected to be worked up into plaster models. The eightieth birthday crown, however, saw the emergence from the beginning of a firm view in favour of one drawing and although amendments were suggested it was clear to members that this design captured the spirit of the subject.

Right: A selection of the drawings submitted by the artists involved in the competition to design the Brunel two-pound coins.



Work on the plaster models of the short-listed designs was initiated and the Committee then met on 14 December at Cutlers' Hall to judge how the designs had developed. The unfinished business from the last meeting included the Second World War £2 coin and of the two designs that had been developed into plaster models the Committee chose Robert Elderton's depiction of St Paul's Cathedral caught in searchlights. The idea behind issuing two coins for Brunel was that one would celebrate his achievements, while the other would focus on his character. Designs were selected for both themes, but the plaster models required further amendment and a final decision on recommending them was deferred until the next meeting. In looking at the subject of the Victoria Cross the themes suggested included the anniversary of the institution of the Cross and the gallantry of those who had received it. The Committee agreed to recommend the work of two artists and designs are being revised for submission to the Chancellor of the Exchequer and the Queen. Finally at this meeting, the slight amendments that had been suggested to the design for the eightieth birthday crown were accepted.

The Committee's last meeting of the year took place on 3 March at Goldsmiths' Hall. Revised models of the two Brunel designs had been prepared and the feeling of members was that both had improved to an extent that a final

recommendation to select them could be made. The Committee also considered options for the future of the Britannia bullion coin series but after a long discussion a decision was made to defer a final view on the subject to a future meeting.

There were four new appointments to the Committee during the year, prompted by the retirement of members who had reached the end of their respective terms. From the recruitment process three appointments were made in September: Diana Condell, Senior Curator at the Imperial War Museum; John Maine RA, a practising sculptor; and Professor David Cannadine of the Institute of Historical Research. The retirement of Michael Harvey MBE, who had made a considerable contribution as the Committee's lettering expert, instigated the search for someone who could speak with authority at meetings on this crucial aspect of numismatic design. After consulting leading figures in the field, the candidate to emerge was Stephen Raw. Having reached the end of his initial four-year term as Chairman of the Committee, Professor Sir Christopher Frayling was re-appointed for a further four years and the memberships of Stuart Devlin and Katharine Eustace were extended for periods of three years.

Kevin Clancy
Secretary to the Committee



Membership of the Committee

(with dates of appointment)

Professor Sir Christopher Frayling
(Chairman) *January 2001,*
re-appointed January 2005

Mr Gerald Sheehan
(Chief Executive of the Royal Mint and
ex officio Deputy Chairman) *December 2001*

Mr Peter Gwynn-Jones CVO *January 1996*
re-appointed January 2003

Mr Stuart Devlin AO CMG *January 1998,*
re-appointed January 2005

Miss Katharine Eustace *January 1998,*
re-appointed January 2005

Sir Peter Michael CBE *March 1999*

Miss Rosalind Savill CBE *March 1999*

The Rt Hon Lord Luce *January 2001*

Miss MaryAnne Stevens *April 2001*

Professor David Cannadine *September 2004*

Miss Diana Condell *September 2004*

Mr John Maine RA *September 2004*

Mr Stephen Raw *January 2005*

Mr John Porteous OBE
(Numismatic Consultant to the Committee)



Financial and General Reports

Introduction

The Royal Mint has been operating as a Trading Fund since 1 April 1975 in accordance with the Royal Mint Trading Fund Order 1975 (S.I. 1975 No. 501) and, since 1 April 2002, the Royal Mint Trading Fund (Extension and Variation) Order 2002, both made under the Government Trading Funds Act 1973. The operations of the Royal Mint provided for under these orders are the manufacture and supply of coins, medals, seals and similar articles, gifts and collectible items, and any operation incidental or conducive to such manufacture or supply.

On 1 April 1990 the Mint became an Executive Agency under the initiative announced by the then Prime Minister in February 1988.

The Royal Mint has built up a high reputation for quality and today exports coins and blanks to countries throughout the world. In addition to producing circulating coinage for the United Kingdom and overseas countries, it provides seals, medals and dies for both official and commercial customers. The production and sale of collector coins and other gifts and collectible items represent an important part of the business activity.

The Master of the Mint is the Chancellor of the Exchequer. The Chief Executive and Accounting Officer of the Royal Mint is the Deputy Master and Comptroller.

The employees of the Royal Mint are Civil Servants and are subject to conditions of service prescribed for the Civil Service. Remuneration and performance-related pay structures are specific to the Royal Mint.

Financial Objective

The Government Trading Funds Act 1973 lays upon the Minister responsible for each fund the duty:

- “(a) to manage the funded operations so that the revenue of the fund is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to revenue account; and
- (b) to achieve such further financial objectives as the Treasury may from time to time, by minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with Treasury concurrence) to be desirable of achievement.”

The Chancellor of the Exchequer has previously determined that a further financial objective desirable of achievement by the Royal Mint for the period 1 April 2001 to 31 March 2006 should be a return on net assets of 11%. This has not been achieved to date. The return in 2004-05 is (4.3%). For this purpose the annual rate of return is calculated using profit/loss for the year before interest on long-term loans from the National Loans Fund as a percentage of the average capital employed (capital and reserves plus long-term loans from the National Loans Fund).

Financial Review

Sales in the year of £99.6 million include £44.3 million (44%) to overseas customers.

The modified historical cost operating loss for the year was £2.0 million (2003-04: profit of £2.1 million).

There is no dividend payable to the Consolidated Fund (2003-04: £0.75 million).

Capital expenditure of £3.9 million was incurred in the year.

Derivative Financial Instruments

The Royal Mint operates a prudent hedging policy and uses various types of financial instruments to manage its exposure to market risks that arise from its business operations. The main risks, as in the past, are from movements in commodity metal prices and foreign currency.

Metal prices

A significant proportion of the Royal Mint's raw materials consists of non-ferrous metals which are traded on the London Metal Exchange (LME) and whose prices are volatile. The metal element of selling prices is determined on the basis of the market prices at the date a contract or order is accepted. The Royal Mint seeks to hedge its exposure to subsequent movements in metal prices by securing forward contracts to acquire the metal at the committed selling price. The objective of this policy is that the Royal Mint's financial performance should not be affected by movements in these metal prices.

Similarly, where collector coins are manufactured for sale through the Royal

Mint's marketing and promotional activities, appropriate hedges are secured using forward contracts or precious metal loans with the objective of minimising the impact of fluctuations in metal prices on future transactions and cash flows. The level of cover taken is determined by the Executive Directors and the forward cover is managed in order to achieve the Royal Mint's objective that, as far as possible, its financial performance is not exposed to market fluctuations in metal prices.

Foreign exchange

The Royal Mint hedges its expected future trading cash flows using forward contracts and purchased currency options. The objective of the hedging policy is to minimise the effect of fluctuations in exchange rates on future transactions and cash flows.

Metal stocks

The Royal Mint's metal stocks include a base stock of copper and nickel which is included at a valuation based on the LME prices at 31 March 2005. In addition, precious metal loans are used to finance the Royal Mint's working capital of gold and silver. The precious metals are reflected in stock and the corresponding liability is included in trade creditors. All other metal stocks are in respect of sales commitments (see "Metal prices" above).

Credit Payment Policy

The policy of paying creditors complied with the Better Payment Practice Code. A total of 93% of invoices was paid within either thirty days or the agreed period.

Assay

In accordance with the Hallmarking Act 1973, it was established that the assay methods and procedures of the Assay Offices in London, Birmingham, Sheffield and Edinburgh were satisfactory.

People

The policy continued of employing and training disabled persons, wherever their aptitudes and abilities allow. Where employees become disabled

the Mint endeavours to continue their employment, provided there are jobs which they can do, bearing in mind not only their handicap or disability but their experience and skills.

The number of people employed (permanent and casual staff) at 31 March 2005 was 926.

Employee communications are an integral element of the Royal Mint's management processes and include regular feedback meetings involving all employees. A copy of the *Annual Report* is available to all employees on request.

Directors

Details of the Directors are set out on page 1. None of the Directors has interests that conflict with their responsibilities.

Auditor

The Trading Fund's statutory auditor is the Comptroller and Auditor General. The external audit costs are set out in Note 4 to the Accounts.

Change in status

The Chancellor of the Exchequer announced in December 2004 that the Government intended to transform the Royal Mint from a Trading Fund into a Government-owned company, in order to provide a more appropriate corporate governance structure and the opportunity for the Mint to improve its performance. Professional advisors have been appointed to assist with this process and the costs incurred to date are referred to in Note 4.

The process of incorporating the Mint's activities in a company are ongoing. The accounts have been prepared on a going-concern basis and no adjustments have been made to the values at which assets and liabilities are reflected in the Balance Sheet on the basis that the assets and liabilities are expected to be transferred to the government-owned company at the values recorded in the accounts.

Gerald Sheehan

Accounting Officer
6 July 2005

Statement of Trading Fund's and Accounting Officer's Responsibilities

Under section 4(6) of the Government Trading Funds Act 1973 the Treasury has directed the Royal Mint to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its profit or loss, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to:

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

The Treasury has appointed the Chief Executive of the Royal Mint as the Accounting Officer for the Agency. 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 Accounting Officers' Memorandum, issued by the Treasury and published in *Government Accounting*.

Corporate Governance – Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Royal Mint's policies, aims and objectives, whilst safeguarding public funds and the Royal Mint's assets, for which I am personally responsible in accordance with the responsibilities assigned to me in *Government Accounting*.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Royal Mint's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Royal Mint for the year ended 31 March 2005 and up to the date of approval of the *Annual Report* and accounts, and accords with Treasury guidance.

Capacity to handle risk

The leadership of the Royal Mint's risk management process is undertaken by the Risk Management Committee whose membership includes the Executive Directors and meets four times a year. The Committee reviews the Risk Register on a half-yearly basis and focuses on the identification and management of the key risks which could impact on the achievement of the Royal Mint's policies, aims and objectives and the control strategy for each of the significant risks.

The Risk Management Committee's activities are reported to the Audit Committee, which also reviews the Risk Register annually.

The Executive Directors involve the senior management team in their respective areas in the identification and assessment of risk. The risk management and governance process is included in the annual internal audit plan.

Guidance in relation to risk awareness and risk management is provided to staff as part of their ongoing development and training, and appropriate risk management requirements are embedded in staff objectives and responsibilities.

The Royal Mint's risk management framework and practice conforms with guidance issued by the Treasury.

The risk and control framework

Risk management is embedded in the ongoing planning and strategy process and focuses on the identification of the key risks which could impact on the achievement of the Royal Mint's strategic objectives. In addition, the Risk Register was reviewed twice in the year by the Risk Management Committee, supported by representatives of relevant operational departments, who:

- identify the key risks which could impact on the achievement of the Royal Mint's strategic aims and objectives or on compliance with its policies and procedures;
- evaluate the risks based on the likelihood of the risk occurring and the impact of a particular outcome (risk) actually happening; and
- consider the control strategy for each of the significant risks.

Risk appetite is an inherent element of the risk management process and influences management's assessment of the risks and the appropriateness of the associated control systems. The Risk Management Committee advises the Board in relation to each risk category. The Royal Mint's risk priorities in 2004-05 were in the following areas:

- safety, health and the environment;
- demand for and delivery of circulating coin;
- production of circulating coin and blanks to meet customer requirements;
- staff management and recruiting;
- demand for and delivery (customer service) of collector coin;
- security; and
- volatility of raw material prices (commodity metals traded on the LME).

Key risk and performance indicators are reported, monitored and reviewed on a regular basis and changes in the risk profile of the organisation are addressed by the Executive Directors.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. 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 Royal Mint 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and Risk Management Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual operating plan and budget which are reviewed and agreed by the Board;
- regular reviews by the Board of periodic and annual reports, which indicate performance against the forecast;
- setting targets and Key Performance Indicators to measure financial and other performance;
- clearly-defined capital investment control guidelines; and
- formal security arrangements.

Executive Directors within the Royal Mint provide me with written confirmation in relation to the effectiveness of the system of internal control in their area of responsibility.

The Royal Mint operates internal audit arrangements to standards defined in the Government Internal Audit Standards. The internal audit function is undertaken by Mazars LLP, Chartered Accountants. Their annual audit plan, the results of their audit, including recommendations for improvement, are reported to the Director of Finance and myself, and presented to the Audit Committee. They also provide an independent opinion on the adequacy of the Royal Mint's framework of risk management, governance and internal control.

During the year difficulties occurred in relation to the implementation of a new stock management and recording system which impacted on the effectiveness of the Mint's internal control process. Action plans were developed to address these issues and corrective action has been undertaken.

Gerald Sheehan

Accounting Officer

6 July 2005

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

I certify that I have audited the financial statements on pages 28 to 38 under the Government Trading Funds Act 1973. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and stocks and the accounting policies set out on page 32.

Respective responsibilities of the Royal Mint, the Chief Executive and Auditor

As described on page 24, the Royal Mint and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Royal Mint and Chief Executive are also responsible for the preparation of the other contents of the *Annual Report*. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Royal Mint has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the *Annual Report* and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 24 to 26 reflects the Royal Mint's compliance with the Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Royal Mint's corporate governance procedures or its risk and control procedures.

Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Royal Mint and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Royal Mint's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, fraud or other irregularity, and that, in all material respects, the expenditure and income 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Royal Mint at 31 March 2005 and of the loss, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Trading Funds Act 1973 and directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report on page 39.

John Bourn
Comptroller and Auditor General
13 July 2005

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

Operating Account for the year ended 31 March 2005

	Notes	£'000	2004-05 £'000	2003-04 £'000
TURNOVER	2, 3		99,613	89,890
Change in stocks of finished goods and work in progress		(2,035)		(1,240)
Own work capitalised		52		34
Other operating income		165		81
Raw materials and consumables		(49,928)		(39,150)
Other external charges		(4,795)		(5,474)
Staff costs				
– operating staff costs	5	(24,070)		(22,717)
Depreciation and other amounts written off tangible fixed assets	7	(4,423)		(4,212)
Other operating charges		(16,536)		(15,095)
			<u>(101,570)</u>	<u>(87,773)</u>
OPERATING (LOSS)/PROFIT			(1,957)	2,117
INTEREST RECEIVABLE AND SIMILAR INCOME			82	83
INTEREST PAYABLE AND SIMILAR CHARGES	6		<u>(1,370)</u>	<u>(906)</u>
(LOSS)/PROFIT FOR THE YEAR			<u>(3,245)</u>	<u>1,294</u>
DIVIDEND PAYABLE TO THE CONSOLIDATED FUND			-	(750)
RETAINED (LOSS)/PROFIT FOR THE YEAR			<u><u>(3,245)</u></u>	<u><u>544</u></u>

No activities have been acquired or discontinued during the year.

The notes on pages 32 to 38 form part of the modified historical cost accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2004-05 £'000	2003-04 £'000
(Loss)/profit for the year	(3,245)	1,294
Unrealised surplus/(deficit) on revaluation of property	623	(318)
Unrealised surplus/(deficit) on revaluation of plant and machinery	128	(58)
Unrealised surplus on revaluation of uncommitted metal	795	1,699
Total recognised gains and losses relating to the year	<u>(1,699)</u>	<u>2,617</u>

HISTORICAL COST PROFITS AND LOSSES

	2004-05 £'000	2003-04 £'000
Reported (loss)/profit for the year	(3,245)	1,294
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	216	198
Historical cost (loss)/profit for the year	<u>(3,029)</u>	<u>1,492</u>

MOVEMENTS IN CAPITAL AND RESERVES (Government Funds)

	Public Dividend Capital £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Total £'000
As at 1 April 2004	5,500	4,675	39,873	50,048
Movements in the year:				
Revaluations				
Fixed Assets	-	751	-	751
Stocks	-	795	-	795
(Loss) for the year	-	-	(3,245)	(3,245)
Reclassification to distributable reserves	-	(216)	216	-
As at 31 March 2005	<u>5,500</u>	<u>6,005</u>	<u>36,844</u>	<u>48,349</u>

The notes on pages 32 to 38 form part of the modified historical cost accounts.

Balance Sheet as at 31 March 2005

	Notes	£'000	2005 £'000	2004 £'000
FIXED ASSETS				
Tangible Assets	7		39,921	39,733
CURRENT ASSETS				
Stocks	8	46,413		62,952
Debtors	9	13,216		11,699
Cash at bank and in hand		2,950		2,770
		<u>62,579</u>		<u>77,421</u>
CREDITORS				
Amounts falling due within one year	10	(42,936)		(54,070)
NET CURRENT ASSETS				
			<u>19,643</u>	<u>23,351</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	3		<u>59,564</u>	<u>63,084</u>
FINANCED BY:				
CREDITORS				
Amounts falling due after one year	11		11,215	12,510
PROVISIONS FOR LIABILITIES & CHARGES	12		-	526
CAPITAL AND RESERVES				
Public Dividend Capital		5,500		5,500
Revaluation Reserve		6,005		4,675
Profit and Loss Account		<u>36,844</u>		<u>39,873</u>
			<u>48,349</u>	<u>50,048</u>
			<u>59,564</u>	<u>63,084</u>

The notes on pages 32 to 38 form part of the modified historical cost accounts.

Gerald Sheehan
Accounting Officer
6 July 2005

Cash Flow Statement

for the year ended 31 March 2005

	Notes	2004-05 £'000	2003-04 £'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(a)	3,522	(738)
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		82	78
Interest paid		(1,373)	(887)
		(1,291)	(809)
CAPITAL EXPENDITURE		(3,744)	(3,629)
EQUITY DIVIDEND PAID		(750)	-
CASH FLOW BEFORE FINANCING		(2,263)	(5,176)
FINANCING			
Long-term loan principal repaid		(580)	(545)
Movement in short-term loans		3,000	5,000
NET CASH FLOW FROM FINANCING		2,420	4,455
INCREASE/(DECREASE) IN CASH IN THE YEAR	(b)	157	(721)
(a) RECONCILIATION OF OPERATING (LOSS)/PROFIT WITH THE NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		£'000	£'000
Operating (loss)/profit		(1,957)	2,117
Depreciation charge		4,423	4,212
Movements in			
Stocks		17,334	(11,679)
Debtors		(1,517)	(3,734)
Creditors (excluding dividend)		(14,738)	8,416
Currency translation difference		(23)	(70)
		3,522	(738)
(b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		£'000	£'000
Increase/(Decrease) in cash in the year		157	(721)
Currency translation difference		23	70
Cash flow from movements in borrowings		(2,420)	(4,455)
Movement in net funds		(2,240)	(5,106)
Net debt at start of year		(12,957)	(7,851)
Net debt at end of year		(15,197)	(12,957)
(c) ANALYSIS OF NET DEBT		£'000	£'000
Cash at bank and in hand		2,950	2,770
Debt due within one year		(8,617)	(5,580)
Debt due after one year		(9,530)	(10,147)
		(15,197)	(12,957)

Notes to the Accounts

Note 1

PRINCIPAL ACCOUNTING POLICIES

(a) **Basis of Accounting**

The accounts are prepared under the historical cost convention modified by the revaluation of tangible fixed assets and stocks of uncommitted metal. They conform with the accounting and disclosure requirements of the Companies Act 1985 and applicable accounting standards issued or adopted by the Accounting Standards Board as far as those requirements are appropriate.

(b) **Turnover**

This consists of the invoiced price of goods and services supplied, excluding payments to Issuing Authorities and Value Added Tax.

(c) **Value Added Tax**

Income and expenditure are shown net of recoverable Value Added Tax. Irrecoverable Value Added Tax is charged to the relevant expenditure category or, if appropriate, capitalised with additions to fixed assets.

(d) **Tangible Fixed Assets**

Tangible fixed assets are included at their value to the business by reference to current cost. The valuation is based on the following:

- i. land and buildings are stated at the open market current use valuation or, in the case of specialist buildings, depreciated replacement cost; and
- ii. plant and machinery are stated at their cost uprated by indices published by the Office for National Statistics.

No account is taken of the Royal Mint collection of coins and medals which is of inestimable value. Where appropriate, impairment of fixed assets is calculated as the difference between the carrying values (based on the valuations referred to above) of the assets and the estimated value in use of the assets as an income-generating unit at the date any impairment loss is recognised. Value in use represents the present value of expected future cash flows. Impairment loss is recognised in the statement of total recognised gains and losses until the carrying amount of the fixed assets reaches depreciated historical cost. Thereafter, the balance of the impairment is recognised in the profit and loss account.

(e) **Depreciation**

Depreciation charged represents the value to the business of fixed assets consumed in the year and is provided on the value of fixed assets on a straight-line basis over their expected useful lives. The principal rates used for this purpose are set out below.

	%
Buildings	2
Plant and machinery	5-10

No depreciation is provided in respect of land.

(f) **Stocks and Work in Progress**

Stocks and work in progress are valued at the lower of cost (or net current replacement cost where materially different) and estimated net realisable value. Cost consists of direct materials, labour and production overheads. The net current replacement cost of the metal element of stocks and work in progress less commitments to and advances received from customers has been revalued on the basis of LME prices ruling at 31 March 2005. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from its existing state to a finished condition. Provision is made for obsolescent, slow moving and defective stocks.

(g) **Foreign Exchange**

Revenue and expenditure incurred in foreign currencies which are not covered by a forward contract are translated at the rate of exchange ruling on the date of the transaction. Balances held in foreign currencies not covered by forward contracts are translated at the rate of exchange ruling at the balance sheet date. Transactions and balances covered by forward contracts are translated at the contract rate.

(h) **Insurance**

No outside insurance is effected against fire, explosion, common law, third party, theft and similar risks. The Royal Mint accounts for such claims as and when they arise.

(i) **Pension Scheme**

Employees are covered by the provisions of the Civil Service pension arrangements which comprise final salary defined benefit schemes that are unfunded. The Royal Mint recognises the expected cost of providing pensions on a systematic basis over the period in which it benefits from employees' services by payment to the Civil Service Pension Schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the Civil Service Pension Schemes. Further information is given in Note 13.

Note 2

TURNOVER

Turnover is attributable to the manufacture and supply of coins and similar articles and the supply of gifts and collectible items.

	2004-05 £'000	2003-04 £'000
United Kingdom	55,311	62,161
Overseas	44,302	27,729
	<u>99,613</u>	<u>89,890</u>

Note 3

SEGMENTAL REPORTING

ANALYSIS BY CLASS OF BUSINESS

	2004-05 £'000	2003-04 £'000
Turnover		
Circulating coin		
United Kingdom	25,045	26,643
Overseas	34,496	18,697
	<u>59,541</u>	<u>45,340</u>
Collector		
United Kingdom	30,266	35,518
Overseas	9,806	9,032
	<u>40,072</u>	<u>44,550</u>
Total Turnover	<u>99,613</u>	<u>89,890</u>
Operating profit		
Circulating coin	1,489	2,222
Collector	3,699	6,604
Common costs	(7,145)	(6,709)
Total Operating (Loss)/Profit	<u>(1,957)</u>	<u>2,117</u>
Net operating assets		
Circulating coin	50,623	49,928
Collector	14,021	19,183
Unallocated net liabilities	(5,080)	(6,027)
Total assets less current liabilities	<u>59,564</u>	<u>63,084</u>

The unallocated net liabilities comprise cash at bank and in hand, NLF loans and debtor and creditor balances which are not specifically attributed to either segment.

No further segmental information is included in these accounts as, in the opinion of the Board and the Accounting Officer, its disclosure would be seriously prejudicial to the Royal Mint's commercial interests.

Note 4

OPERATING PROFIT

	2004-05 £'000	2003-04 £'000
Operating profit is stated after charging:		
Sub-contracted work and semi-processed material	4,795	5,474
External audit fees	42	48
Hire of plant and machinery	67	79
Travel and subsistence	486	536
Costs associated with the transfer to a government-owned company	247	-
	<u>6,037</u>	<u>12,116</u>

No other fees were paid to the external auditor.

Note 5

REMUNERATION AND EMPLOYMENT

The salary and pension entitlements of the Chief Executive and Directors were as follows.

	Remuneration including performance pay (2003-04 remuneration) £'000	Real increase in pension and related lump sum at age 60 £'000	Total accrued pension at age 60 at 31 March 2005 and related lump sum £'000	CETV 31 March 2004 £'000	CETV 31 March 2005 £'000	Real increase in CETV after adjustment for inflation and changes in market investment factors £'000
Executive Directors						
Gerald Sheehan Chief Executive	125-130 (125-130)	0-2.5	5-10	34	78	19
Keith R Cottrell Director of Sales	60-65 (60-65)	0-2.5 plus 2-2.5 lump sum	10-15 plus 35-40 lump sum	185	211	13
Alan Wallace Director of Collector Coin		Consent to disclosure withheld				
Michael Slater Director of Circulating Coin Production (retired April 2005)	60-65 (60-65)	0-2.5 plus 2.5-3.0 lump sum	20-25 plus 60-65 lump sum	336	371	13
Tony Burnell Director of Human Resources	60-65 (55-60)	0-2.5 plus 2-2.5 lump sum	5-10 plus 15-20 lump sum	68	86	11
Huw Edwards Director of Finance	65-70 (30-35)	0-2.5	0-2.5	5	17	9

Remuneration includes salary, performance pay and all other benefits. Pension benefits are provided through the Civil Service Pension (CSP) arrangements. Details of these arrangements are set out in Note 13.

The above table shows the member's Cash Equivalent Transfer Value (CETV) accrued at the beginning and end of the reporting period and 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 real increase in CETV is after adjustment for inflation and changes in market investment factors.

CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and the other pension details include the value of any pension benefit to another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Civil Service Vote has received a transfer payment commensurate to 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. CETV's are calculated within the guidelines and framework prescribed by the Institute of Faculty of Actuaries.

Non-Executive Directors	Fees (£'000)
Hugh Beever	20-25
Robert Guy	5-10
Jan Smith	5-10
David Wertheim	5-10

Note 5 continued

TOTAL STAFF COSTS	2004-05 £'000	2003-04 £'000
Wages and salaries	20,290	19,016
Social security costs	1,543	1,412
Other pension costs	2,237	2,211
Staff on secondment	-	78
	<u>24,070</u>	<u>22,717</u>
AVERAGE NUMBER EMPLOYED	2004-05	2003-04
Production	718	675
Sales and marketing	89	80
Administration	112	118
	<u>919</u>	<u>873</u>

All employees are Civil Servants. A total of four people retired early on ill-health grounds, the total additional accrued pension liabilities amounted to £5,841.

Note 6

INTEREST PAYABLE AND SIMILAR CHARGES	2004-05 £'000	2003-04 £'000
On loans repayable within five years	693	203
On loans payable by instalments over more than five years	677	703
	<u>1,370</u>	<u>906</u>

Note 7

TANGIBLE FIXED ASSETS	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Valuation			
At 1 April 2004	13,286	73,815	87,101
Additions	17	3,843	3,860
Disposals	-	(2,003)	(2,003)
Revaluation	226	213	439
At 31 March 2005	<u>13,529</u>	<u>75,868</u>	<u>89,397</u>
Depreciation:			
At 1 April 2004	-	47,368	47,368
Charge for year	397	4,026	4,423
Disposals	-	(2,003)	(2,003)
Revaluation	(397)	85	(312)
At 31 March 2005	<u>-</u>	<u>49,476</u>	<u>49,476</u>
Net book value at 31 March 2005	<u>13,529</u>	<u>26,392</u>	<u>39,921</u>
Net book value at 1 April 2004	<u>13,286</u>	<u>26,447</u>	<u>39,733</u>

Land and buildings are stated at open market current use valuation at 31 March 2005 or depreciated replacement cost as at that date in the case of buildings of a specialist nature. This valuation totalling £17.3 million was provided by Atisreal Limited in accordance with the guidelines set out in the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The valuation has been reduced by the impairment provision made in the year ended 31 March 2002. There has been no change in the impairment provision between the years ending 31 March 2003 and 31 March 2005.

Note 7 continued

If fixed assets had not been revalued they would have been included at the following amounts:

	Freehold land and buildings £'000	Plant and Machinery £'000	Total £'000
At 31 March 2005			
Cost	16,660	65,444	82,104
Accumulated Depreciation	(5,358)	(39,690)	(45,048)
Net book value at 31 March 2005	<u>11,302</u>	<u>25,754</u>	<u>37,056</u>
Net book value at 1 April 2004	<u>11,681</u>	<u>26,117</u>	<u>37,798</u>

Note 8

	2005 £'000	2004 £'000
Stocks		
Metal stocks	24,933	37,887
Work in progress (excluding metal)	5,081	5,274
Stores and packing materials	2,547	2,151
Finished goods	13,852	17,640
	<u>46,413</u>	<u>62,952</u>

Metal stocks of £24.933 million (2004: £37.887 million) include a base stock of copper and nickel with a net realisable value of £5.279 million at 31 March 2005 (2004: £4.484 million) and £18.091 million (2004: £31.232 million) in respect of precious metal held for third parties and reflected in trade creditors (See note 10).

The current replacement cost of other stocks and work in progress is not significantly different from the balance sheet values.

Note 9

	2005 £'000	2004 £'000
Debtors		
Trade debtors	12,250	10,263
Other debtors	635	1,006
Prepayments and accrued income	331	430
	<u>13,216</u>	<u>11,699</u>

Note 10

	2005 £'000	2004 £'000
Creditors: amounts falling due within one year		
Short-term fixed-rate NLF loans	(8,000)	(5,000)
Long-term NLF loans (see Note 11)	(617)	(580)
Trade creditors	(25,004)	(36,744)
Other creditors	(1,332)	(1,740)
Payments received on account	(6,101)	(7,149)
Taxation and social security	(532)	(551)
Proposed dividend	-	(750)
Accruals and deferred income	(1,350)	(1,556)
	<u>(42,936)</u>	<u>(54,070)</u>

Included in other creditors is £0.975 million (2004: £1.576 million) in relation to redundancy and early retirement creditors.

Note 11	2005	2004
CREDITORS: amounts falling due after one year	£'000	£'000
Amounts in respect of redundancy and early retirement		
Between one and two years	620	748
Between two and five years	1,065	1,505
After five years	-	110
	<u>1,685</u>	<u>2,363</u>
Loans repayable:		
Between one and two years	658	618
Between two and five years	2,238	2,102
After five years	6,634	7,427
	<u>9,530</u>	<u>10,147</u>
	<u>11,215</u>	<u>12,510</u>

The above loans comprise two fifteen-year fixed-rate loans from the National Loans Fund as follows:

Loan	Interest rate	Date drawn	Amount Due	Amount Due
£'000	%		within 12 months	after 12 months
			(see note 10 above)	(above)
			£'000	£'000
10,500	6.347	20 September 2001	542	8,305
1,500	6.305	2 October 2001	75	1,225
			<u>617</u>	<u>9,530</u>

Note 12	Restructuring Provision
PROVISION FOR LIABILITIES AND CHARGES	£'000
As at 1 April 2004	526
Payments	(289)
Reclassification to creditors	(237)
As at 31 March 2005	<u>-</u>

Note 13

PENSION COSTS

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, Civil Servants may be in one of three statutory based "final salary" defined benefit schemes (Classic, Premium and Classic Plus). New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account). Royal Mint employees participate in the Classic, Premium and Classic Plus schemes. Details of these schemes are set out below:

a) Classic Scheme

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

b) Premium Scheme

Benefits accrue at the rate of 1/60th of pensionable salary for each year of service. Unlike Classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the members pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and

Note 13 continued

also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. Medical retirement is possible in the event of serious ill health. Where the members' health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age sixty.

c) Classic Plus Scheme

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

Pensions payable under the Classic, Premium and Classic Plus are increased in line with the Retail Prices Index. These are unfunded multi-employer defined benefit schemes and the Royal Mint is unable to identify the share of the underlying assets and liabilities. A full actuarial valuation of the Civil Service Pension arrangements was carried out on 31 March 2003. Details can be found in the resource account of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05 employers' contributions of £2.237 million were paid to the Civil Service Pension Schemes (2003-04: £2.216 million) at rates in the range 12% to 18.5% of pensionable pay, based on salary bands. The pension contribution rates increased to a range of 16.2% to 24.6% from 1 April 2005. The contributions reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

Note 14

	2005	2004
	£'000	£'000
CAPITAL COMMITMENTS		
Commitments in respect of contracts	495	635

Note 15

RELATED PARTY TRANSACTIONS

The Royal Mint is an Executive Agency and Trading Fund.

Debtors and creditors due within one year include £0.435 million and £0.080 million due from and to central government bodies in relation to trading activities. The debtor and creditor balances also include £0.579 million and £0.532 million due from and to HM Revenue and Customs.

In addition the Royal Mint has had a number of material transactions with other Government Departments. Most of these transactions have been with the Ministry of Defence and Home Office. During the year none of the Board Members, members of the key management staff or other related parties has undertaken any material transactions with the Royal Mint.

Note 16

NUMERICAL DISCLOSURES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

Hedges

As explained in the Financial and General Reports on pages 22 and 23, the Royal Mint's policy is to hedge the following exposures:

Metal Price Risk

The metal contracts relate entirely to the purchase of raw materials for use by the Royal Mint in its manufacturing process. Such contracts are placed solely for sales commitments.

Currency Risk

The forward exchange contracts which were outstanding at 31 March 2005 amounted to £7.1 million (2004: £12.5 million). If these contracts were translated at the year-end rate, there would have been a loss of £0.8 million (2004: loss of £1.1 million). All of these contracts are in respect of transactions or commitments of the Royal Mint and they are all due to mature during the year ending 31 March 2006.

Note 17

CONTINGENT LIABILITIES

In June 2002, the Birmingham Mint Limited issued a claim in the High Court against the Treasury seeking damages in excess of £5.4 million in respect of an alleged breach of contract by the Royal Mint.

The Royal Mint considers that there is no basis to this claim and is contesting it vigorously.

Report by the Comptroller and Auditor General

Introduction

1. I reported on the financial performance of the Royal Mint in 2002, following a substantial loss for the year ended 31 March 2002, setting out the causes of the deteriorating financial position and describing the corrective action that the Mint was taking. At the time I said that I intended to monitor closely the Mint's financial performance and recovery progress as part of my future audits of the Annual Accounts.¹
2. The Mint returned to profitability in 2002-03 and 2003-04, but following a further loss in 2004-05 my report reviews the impact of the changes made three years ago, records the reasons for the current year's loss, and sets out the measures the Mint is taking to ensure future profitability.
3. This is important because the Chancellor announced in his December 2004 Pre-Budget Report that the Royal Mint Trading Fund is to be converted into a Government-owned company, with the intention of enhancing commercial attitudes in the Mint and ensuring that there is a greater focus on the competitive business requirements in the various markets in which the Mint operates.² This change is likely to take place during the financial year 2005-06 and therefore these accounts may be the last full year of accounts of the Trading Fund.

Financial performance

4. After the loss in 2001-02 Royal Mint officials informed my staff that they did not expect the Mint to return to operating profitability until 2003-04, as the impact of the various changes they proposed would only start to take effect during 2002-03. Despite a fall in sales, the Mint recorded a small operating profit in 2002-03 and in 2003-04. This improvement in financial performance was not maintained in 2004-05.
5. The Mint's activities are split into two main business areas: Circulating Coin, involving the production of circulating coinage for the United Kingdom and overseas countries; and Collector Coin, involving the production and sale of collector coins and collectible items. As Note 3 to the Accounts shows, before common costs of £7.1 million, the two business areas recorded small operating profits for the year of £1.5 million and £3.7 million respectively. After common costs, however, the Mint recorded an overall operating loss of £2.0 million, increasing to £3.2 million after interest payments. Although turnover rose in 2004-05 to £99.8 million, an increase of 11% over 2003-04, this was primarily the result of passing on higher raw material metal costs to customers.

Restructuring: 2001-02 to 2004-05

6. In March 2002 the Royal Mint announced a wide-ranging restructuring programme in order to reduce its cost base, improve efficiency and minimise the impact of market variability. In its response to the recommendations of the Committee of Public Accounts, the Government reiterated this objective.³
7. The restructuring was estimated at £12 million, cost some £11 million, and was expected to involve the loss of between 200 and 220 staff through voluntary and, if necessary, compulsory redundancies, together with changes to the working practices of the remaining employees. Between 31 March 2002 and 31 March 2005, permanent staff numbers have reduced from 984 to 779, an overall reduction of 205. The Mint continued to employ casual staff to meet fluctuations in demand. Flexible Working Time was introduced in 2004, but although some pilot schemes are operating in Collector Coin, industrial employees have not yet accepted full implementation. As the Chief Executive acknowledges in his Report, more flexible working practices are necessary to enable the Mint to respond to changes in the market.
8. In the Collector Coin business area, the Mint aimed in the short term to capitalise on the potential demand for Golden Jubilee products, and also to improve marketing and customer service. Performance has been mixed since 2001-02. United Kingdom Collector Coin sales increased by approximately 21% in 2002-03, partly reflecting the expected demand for Golden Jubilee products, but United Kingdom sales have since fallen; by 17% in 2003-04 and by 15% in 2004-05. The absence of a similar thematic event in these years has contributed to the decline, which is offset to some extent by a stronger performance in overseas markets, where sales of collector coins have increased by 41% over the same period.

¹ *Royal Mint Annual Report, 2001-02, Report by the Comptroller and Auditor General pp. 37-44 (HC 1181, 2002-03).*

² Paragraph 6.61, Pre-Budget Report December 2004 (HM Treasury).

³ Treasury Minute on the Fourteenth Report from the Committee of Public Accounts 2002-03 (CM 5802, June 2003).

Reasons for the loss in 2004-05

9. In addition to the delay in the introduction of flexible working practices and the disappointing performance of Collector Coin, and in particular, the *Classics* range, the Royal Mint encountered a number of problems in 2004-05. In the Circulating Coin business, for example, production difficulties included problems in meeting demanding specifications, and delays in implementing new metal furnaces. As described in the Chief Executive's Report and the Operating and Financial Review, the loss for the year can also be attributed to prevailing market conditions and, in particular, lower than expected demand for United Kingdom circulating coin, depressed sales prices and higher than expected steel and energy prices – the latter resulting in reduced gross margins.

Ensuring future profitability

10. The Chief Executive states in his Report that he expects the Royal Mint to return to profitability in 2005-06. Indications are that markets are recovering, and measures are in place to take advantage of these conditions.
- In Circulating Coin, the continuing emphasis for 2005-06 will be on improving flexibility and reducing unit production costs. World demand, which strengthened in the second half of 2004-05, is expected to remain healthy. Demand for United Kingdom coins is expected to increase slightly, but the contract for the production of United Kingdom circulating coin is to be renegotiated in the year and the outcome of that negotiation will be important for the Mint's future profitability.
 - In Collector Coin, the Mint continues to develop new products and to expand its customer database, with the aim of reducing its reliance on products inspired by thematic events, maintaining a high level of customer service, improving productivity and reducing costs.
11. As the Chairman and Chief Executive make clear in the *Annual Report*, the Mint's ability to exploit recovering market conditions and achieve higher production volumes is dependent on completing the introduction of more flexible working arrangements
12. As part of the vesting process associated with a change to Government-owned company status, the Mint's senior management is engaged in an extensive business planning exercise which is identifying opportunities and areas for future focus to maximise financial performance. As part of their planning, the Mint's management has taken into account the costs associated with the transfer to a Government-owned company.
13. My staff will continue to monitor the Royal Mint's financial performance as it moves towards Government-owned company status in the next twelve months.

John Bourn
Comptroller and Auditor General
13 July 2005

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



Royal Mint, Llantrisant CF72 8YT, United Kingdom
www.royalmint.com