



Royal Mint Annual Report 2000-01

As at 31 March 2001

Royal Mint Management Board

Roger Holmes
Deputy Master and Comptroller
(Chief Executive)

EXECUTIVE DIRECTORS

Keith Cottrell
Director of Sales

Allan Pearce
Director of Human Resources and Corporate Affairs

Graham Davies
Director of Finance

Alan Wallace
Director of Collector Coin

Geoff Payne
Director of Engineering Services

NON-EXECUTIVE DIRECTORS

Lyndon Haddon

Jan Smith

David Stark

David Trapnell

Lucy Woods

Bankers Bank of England

Auditors Comptroller and Auditor General
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The Accounts of the Royal Mint Trading Fund as at 31 March 2001 together with the Certificate and Report of the Comptroller and Auditor General thereon at pages 24-36 are prepared pursuant to section 4(6) of the Government Trading Funds Act 1973. (In continuation of House of Commons Paper No 590 of 1999-2000.) Presented pursuant to Act 1973, c.63, s.4(6).

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The Anglo-American Telegraph Company

LIMITED
ESTABLISHED 1866

FIVE CABLES TO AMERICA

(AUTOMATIC DUPLEX SYSTEM)

IN DIRECT TELEGRAPHIC COMMUNICATION WITH

NEW YORK	CHICAGO	MONTREAL	ST. LOUIS	CENTRAL AND
DALLAS	CINCINNATI	PHILADELPHIA	SAN FRANCISCO	SOUTH AMERICA &c.
BOSTON	GALVESTON	NEWFOUNDLAND	WEST INDIES	

Place from Washington No. 100
Words Marconi



G. Marconi

Deputy Master's Report



Roger Holmes
Deputy Master and Comptroller
(Chief Executive)

Left: The centenary of Guglielmo Marconi's transatlantic wireless transmission in 1901 was marked by the issue of a special £2 coin, whose commemorative reverse was designed by Robert Evans.

(Background images taken from *Marconi's Atlantic Leap* by Gordon Bussey)

Below: Gold and silver proof versions were struck of the crown piece issued to celebrate the 100th birthday of the Queen Mother. Both obverse and reverse are the work of the same artist, Ian Rank-Broadley, FRBS, FSNAD.

The Royal Mint emerged during 2000-01 from a period of major change, particularly in its circulating coin and blank business, designed to equip the business for the challenges of the twenty-first century. Although the bottom-line performance for the full year was disappointing, the decline in the Mint's overall financial performance during the previous two years was arrested and reversed in the second half of 2000-01.

The change process - which involved major capital investment and the restructuring of working practices, shift patterns and pay coupled with a heavy training programme - continued to limit production during the first half of the year, when results in the circulating coins and blanks business were also adversely affected by problems with contracts taken in the previous year. Production and productivity recovered strongly, however, in the second half. The ongoing change process is now focussed on continuous improvement, though the Mint is geared to respond quickly to further changes in the highly competitive international marketplace.

The collector coin business had another successful year, thanks particularly to a strong product range and healthy demand from customers in the United Kingdom. It is building on this success by investing in new product and market development, in response to the extra commercial freedom approved by Treasury Ministers in 1999 enabling the Mint to sell gifts and collectibles beyond its traditional coin and medal range.

Review of Trading

Sales of £96.2 million in 2000-01 were slightly higher than in 1999-2000 (£95.6 million). Production of circulating coins and blanks rose to an all-time record of 4,907 million - an increase of 31% over last year - though unit values were depressed partly by a change of mix, with increased emphasis on blanks.

United Kingdom circulating coin issues of 2,068 million were 4% up on 1999-2000 and therefore a new record, excluding years with recoinages of one or more denominations. The continuation of high demand appears to be related not only to the level of retail activity but also to the hoarding of low-denomination coins, as the 1p, 2p and 5p denominations account for the bulk of demand. UK circulating coins were supplied to the banks under the terms of a new Service Level Agreement between the Treasury and the Royal Mint, which took effect on 1 April 2000 for a period of five years.

Overseas business accounted for 48% of total sales in value terms, being lower than in recent years due mainly to high UK demand for circulating and collector coins. Nevertheless, coins or ready-for-striking blanks were produced for sixty-one countries, well in excess of the customer range achieved by any other mint or blank supplier worldwide. Despite the impact of competitive pressure and the strength of sterling on profitability, the Mint is positioned to tackle the difficult trading conditions which are likely to follow the completion of the recoinage in the twelve euro countries.

The adverse effects on circulating coin and blank production associated with implementing the change programme over the last two years constrained output below planned levels for much of the year, but recovery in the second half enabled productivity for the year as a whole to record a 27% increase. Other key performance measures also showed substantial improvement in the second half of the year - notably an increase in 'right first time' and a consequent reduction in the generation of scrap materials. Some fifty improvement teams were operating on 'right first time' or Total Productive



Two highlights of the year were, below, the visit by His Royal Highness The Crown Prince of Brunei and the Welsh Assembly First Minister Rhodri Morgan AM and, right, the presence of Marconi's daughter, Princess Elettra, at the unveiling of the Marconi £2 reverse design at Broadcasting House in London.

Manufacturing projects by the end of the year, involving employees at all levels.

The collector coin business benefited from the extra interest in coins created by the new millennium. The silver set of United Kingdom 2000-dated coins including the Maundy coins was an outstanding success, as was the Millennium medal created in partnership with the British Art Medal Society and customised for many schools and other organisations. The twenty-four-country Millennium Masterpiece Collection made a strong impact internationally with its high degree of design and technical innovation, while the commemorative crown celebrating the Queen Mother's 100th birthday in August 2000 was very popular as expected. The revival of bullion sovereign and half-sovereign production in 2000 proved to be welcome in the marketplace without detracting from the success of the proof sovereign range. In the last quarter of the year a good start was made in marketing 2001-dated products, notably the crown marking the centenary of Queen Victoria's

death and celebrating the Victorian era, and also the £2 coin marking the centenary of Marconi's first wireless transmission across the Atlantic.

Two of the Mint's four published customer service targets were met, and in relation to the major target not achieved (percentage of individual UK collector coin orders fulfilled within twenty-five days) there was a pronounced improvement from 68% in 1999-2000 to 88% in 2000-01, compared with the 95% target.

Capital expenditure was reduced to £3.5 million, compared with £6.1 million in 1999-2000, reflecting completion of the major capital projects within the change programme. The Purchasing Department contributed to tight cash management during the year, with £1 million value for money savings achieved. Overall capital employed remained essentially unchanged compared with the previous year, as working capital contracted apart from a planned increase in UK circulating coin stocks compared with the very low levels of previous years. These stocks were financed by borrowings from the National Loans Fund.

The overall result for 2000-01 was an operating loss of £0.5 million, compared with an operating profit of £0.3 million in 1999-2000. The Mint's published financial target of a 7% return on average net assets was not therefore achieved. The loss after interest was £0.7 million, and accordingly no dividend in respect of 2000-01 has been paid to the Treasury.

Looking to the Future

The principal emphasis in the circulating coins and blanks business is on continuing efficiency improvements based both on the 'right first time' initiative and on better equipment utilisation being achieved through Total Productive Manufacturing. Additional benefits will be obtained from engineering projects which have, for example, enabled the casting thickness of non-ferrous coils to be increased and the yield from blanking steel coils to be improved. Efficiency improvements are enabling the numbers of casual employees and the levels of overtime in the factory to be progressively reduced.





Above: **Following a successful year at Greenwich, the Millennium Dome coining press was brought back to the Mint and is now at work in the Proof Coin Unit.**
(Molyneux Associates)

Above right: **An automated coin counting machine, with the coining presses of the Coin Press Room in the background.**
(Molyneux Associates)



The Mint's objective is to achieve levels of efficiency and flexibility sufficient to match world-class manufacturing standards at a range of volumes depending on future market conditions. Trade unions and employees are currently being consulted on plans to adjust shift patterns and achieve cost savings in the light of expected demand.

For the collector coin business, the strategic priorities are:

- to broaden the customer base, which already extends well beyond the dedicated coin collector, to reach many more people who will be attracted by non-coin gifts and collectibles from the Mint;
- to speed up customer service in order to achieve delivery times comparable with first-class direct marketing organisations in other sectors;
- to achieve efficiency improvements consistently with the product quality which coin collectors expect; and
- to prepare, in the short term, to meet the exceptional demand for coins and medals which is likely to be generated by the Golden Jubilee of Her Majesty The Queen in 2002.

Capital expenditure, albeit at a reduced level, still has a vital role in the Mint's development. A substantial investment is

being made in anticipation of the requirements of the Control of Major Accident Hazards (COMAH) Regulations. Improved casting equipment and blank sorting machines are directed specifically at improving the Mint's response to customer requirements, as is the case with the planned enhancement of the warehousing and fulfilment facilities for the collector business. Expenditure is also earmarked to support the Mint's research and development programme, for example to enhance the Mint's plated product range and to apply new security devices to guard against counterfeiting of coins and vending fraud.

Information technology is becoming ever more central to the Mint's improvement plans. Substantial progress was made during the year in implementing an enterprise resource planning system (TROPOS) into the collector coin and tooling areas, and a business process review has taken place to prepare for its introduction into the circulating coins and blanks business. Another high priority for the new financial year is a state-of-the-art marketing system for the collector coin business which will enhance customer service and flexibility. The Mint's website (www.royalmint.com) has been further upgraded and has attracted a substantial increase in sales through this channel. The website is of course an integral part of the Mint's overall e-business strategy which was developed during the year.

The Mint is continuing to play a significant role in developing the cash aspects of the National Changeover Plan relating to the possible adoption by the UK of the single European currency. Blanks or coins are being produced for several of the first-wave euro countries, and the experience of these countries in planning and implementing the logistics of their cash changeover in January 2002 is being monitored.

People

The key role of multi-skilling and teamworking within the Mint's change programme has entailed continuation of a heavy commitment to training, and an average of 9.7 training days per employee was provided during the year. With the multi-skilling programme now complete, the Mint's commitment as an Investor in People is being partially re-focussed on such areas as management development, teambuilding and training in attendance management.

A unified job structure for all posts in the Mint, developed by a Steering Group of management and trade union representatives, was completed during 2000, and preliminary discussions have taken place on the approach to harmonising performance management and pay systems for industrial and non-industrial employees.

The total number of full-time equivalent Mint employees fell from 1126 on 31 March 2000 to 1088 on 31 March 2001. This reduction was concentrated in the latter part of the year, reflecting productivity improvement in circulating coins and blanks and lower collector coin activity following the Millennium year.

Two new non-executive directors were welcomed to the Royal Mint Management Board in February 2001 - David Trapnell and Lucy Woods. They replaced Gisela

The new boxing line is just one of the many improvements that have resulted from the recent investment programme.
(Molyneux Associates)

Burg and Sid Taylor who retired after seven years during which they contributed wisely and positively to the Mint's development. In addition to their role in Management Board discussions, the non-executive directors form an Audit Committee (along with the Director of Finance and myself) and a Remuneration Committee, which I attend but which is chaired by David Stark, who has been appointed chairman of the non-executive directors.

In January 2001 we also welcomed Professor Sir Christopher Frayling, Rector of the Royal College of Art, as the new Chairman of the Royal Mint Advisory Committee. The Committee's work is described on pages 20-21.

This is my final *Annual Report* at the helm of the Royal Mint, as I shall be leaving later this year after nine years as Deputy Master. I have been privileged to lead the Mint through several successful years, through a very difficult but necessary change programme and now through a recovery phase. I would like to thank my Board colleagues (executive and non-executive) and all Mint employees for their support, and more widely I owe a debt of gratitude to all of the Mint's stakeholders, including commercial partners, customers and suppliers for working so constructively with the Mint and rendering my job not only challenging but also highly enjoyable.

Prospects

The Royal Mint is now better equipped than ever before to face the challenges of its various markets. A solid foundation for continuing efficiency improvement has been built in the circulating coins and blanks business, but its short-term financial performance will be influenced by the volatility of demand, both in the UK and overseas. The collector coin business is building on its recent success through investment in a broader product range and enhanced customer service. The benefits can be expected to come through in profitable growth during Golden Jubilee year.

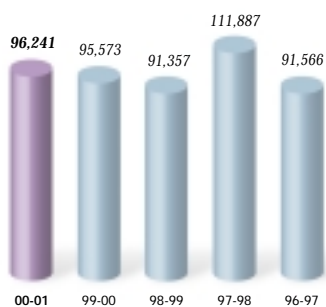
Roger Holmes
Deputy Master (*Chief Executive*)



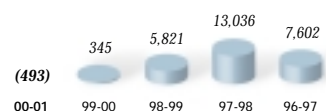
Financial Summary

	2000-2001 £'000	1999-2000 £'000	1998-1999 £'000	1997-1998 £'000	1996-1997 £'000
MODIFIED HISTORICAL COST BASIS:					
United Kingdom sales	50,492	43,444	33,714	48,842	37,805
Overseas sales	45,749	52,129	57,643	63,045	53,761
	<u>96,241</u>	<u>95,573</u>	<u>91,357</u>	<u>111,887</u>	<u>91,566</u>
Operating profit/(loss)	(493)	345	5,821	13,036	7,602
Profit/(loss) for the year	(683)	668	6,289	13,567	7,679
Dividend	-	500	-	7,000	3,000
Retained profit for the year	(683)	168	6,289	6,567	4,679
Capital employed at 31 March	70,483	70,445	66,960	60,640	56,256
Operating profit/sales	-	0.4%	6.4%	11.7%	8.3%

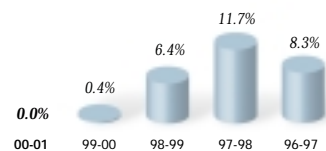
UNITED KINGDOM / OVERSEAS SALES
£'000



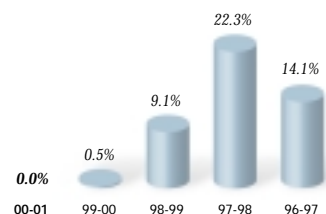
OPERATING PROFIT
£'000



OPERATING PROFIT/SALES



FINANCIAL OBJECTIVE RATIO



Key Ministerial Targets

	2000-2001	1999-2000	1998-1999	Proposed 2001-2002	
Target 1					
To achieve an average rate of return on net assets	Target	7.0%	14.6%	14.0%	11.0%*
	Outturn	-	0.5%	9.1%	-
Target 2					
UK circulating coin	Target	97.0%	96.0%	95.0%	98%
Delivery of accepted orders from UK banks and Post Office		within 11 days	within 11 days	within 12 days	within 11 days
	Outturn	98.0%	99.6%	99.8%	-
Target 3					
UK collector coin	Target	95.0%	95.0%	95.0%	95%
Delivery of orders from individual UK customers, measured from receipt of order or published issue date		within 25 days	within 25 days	within 28 days	within 18 days
	Outturn	88.0%	68.0%	94.0%	-
Target 4					
Medals	Target	97.0%	97.0%	95.0%	97%
Orders delivered by agreed delivery date	Outturn	97.5%	97.2%	99.2%	-
Target 5					
Quality	Target	99.70%	99.70%	99.65%	99.70%
Collector products accepted by individual UK customers	Outturn	99.50%	99.65%	99.70%	-

*Average over the five-year period 1 April 2001 to 31 March 2006



United Kingdom Circulating Coinage

ISSUES OF UNITED KINGDOM CIRCULATING COINS 2000-01

Denomination	Face Value (£m)	Number of Pieces (Millions)
£2	62.80	31
£1	84.13	84
50 pence	17.49	35
20 pence	23.45	117
10 pence	12.50	125
5 pence	15.70	314
2 pence	9.45	473
1 penny	8.89	889
Total	234.41	2,068

ESTIMATED NUMBER OF COINS IN CIRCULATION 31 December 2000

Denomination	Face Value (£m)	Number of Pieces (Millions)
£2	326.00	163
£1	1,251.00	1,251
50 pence	289.00	578
20 pence	354.20	1,771
10 pence	138.10	1,381
5 pence	153.85	3,077
2 pence	109.78	5,489
1 penny	90.17	9,017
Total	2,712.10	22,727

The edge inscription for the Marconi £2 coin was suggested by Gordon Bussey, historical consultant to Marconi plc. (Large picture Molyneux Associates)



Right: The way in which coins impinge on daily life is recognised by their inclusion in paving art in Cardiff. (Commissioned by Norwest Holst Construction and CBAT, and designed by Andrew Rowe, Heather Parnell and David Mackie)

Issues

The expectation of a continuation of the high level of demand, predicted in last year's *Annual Report*, was fully realised. Issues of United Kingdom coins in fact increased by 4%, taking them above 2 billion pieces for the first time in a normal year, that is to say, in a year when figures have not been distorted by the introduction of coins of new size or new denomination.

Issues were again dominated by 2p and 1p pieces, which between them accounted for nearly 70% of the total. Demand for 5p pieces also remained at a high level and, despite occasional criticism of the small size of the coin, its place in circulation is secure and seems unlikely to be seriously challenged.

Demand for other denominations was less strong. Nevertheless a significant increase was apparent in the requirement of the banks for 10p pieces, while any thoughts that the introduction of the bi-colour £2 coin in June 1998 might structurally undermine the usefulness of £1 coins were dispelled as issues of the latter coin rose to 84 million pieces. This was not to the detriment of the £2 coin, which has gradually become more prominent in day-to-day circulation.

Despite the pressure of demand, the Royal Mint coped well in meeting the requirements of the banks and fears that there might be a shortfall in deliveries in the run-up to Christmas proved groundless. Indeed, the Mint managed during the year to build up more of a buffer stock of circulating coins than has been possible in the recent past. A need remains, however, to predict coinage requirements more accurately than at present and consultations continue with the banks on the development of a model to improve forecasting techniques. Significantly, for the first time members of the Association for Payment Clearing Services agreed to make a percentage of their forecast for 2001 a firm order, the plan being that as confidence grows in the ability to predict demand the percentage order ratio will increase.

Number of Coins in Circulation

The number of coins in circulation exceeded 22.5 billion at 31 December 2000. The increase of 2.6% on the previous

year naturally reflected the record rate of issues during 2000-01, and the increase would have been higher still had it not been necessary to revise the calculation of wastage rates applied to last year's figures.

The recalculation has not had the effect of reducing the number of 1p and 2p pieces, but rather of slightly increasing it to nearly 64% of the total. This high figure can be explained, at least in part, by the low velocity of circulation of these denominations, a factor common to small-value coins in many countries.

Commemorative Coins

Two new commemorative coins were successfully issued through banks and post offices during the year: a crown piece, of five pounds face value, to celebrate the 100th birthday of Her Majesty Queen Elizabeth The Queen Mother, and a 50p piece to commemorate the 150th anniversary of the Public Libraries Act of 1850.

Issues of the crown began at the end of June, shortly before the Queen Mother's birthday on 4 August, and as expected the coin proved very popular, with the number issued exceeding two million. The Public Libraries 50p coin followed in August and issues reached the much higher total of 11 million, explained by the fact that these coins, unlike the crowns, can be expected to circulate freely. It may not, perhaps, be too much to hope that an additional design on circulating 50p pieces may be a means of generating greater interest in the coinage on the part of the public.





Overseas Circulating Coins and Export Blanks

The Royal Mint again demonstrated its versatility in supplying a wide range of products to sixty-one countries in every part of the world. Coins and ready-for-striking blanks were supplied in all types of non-ferrous coinage alloys, as well as in copper-, nickel- and brass-plated steel. Individual order sizes varied from 1,000 million to less than one million.

The Mint also offers a very wide variety of shapes, sizes and edge configurations for coins and blanks to enable customers to maintain the necessary distinction, for both visual and automatic vending purposes, between their different coin denominations and also between their coinage and those of neighbouring countries. For these reasons the Mint is a proven supplier, for example, of shaped, bi-colour and edge-lettered products. The Mint also operates, on behalf of the worldwide Mint Directors Conference, a Coin Registration Office which maintains and constantly updates a database of coinage specifications around the world, so that countries considering new coinage specifications can check whether similar coins are in circulation elsewhere.

The Mint has maintained its recently-established customer base in Europe, principally through the supply of blanks, and in some cases coinage dies and coins, to many of the twelve countries participating in the single European currency. The Mint's capability to produce all eight of the euro coinage denominations has been demonstrated, and in addition to the maintenance of its ISO 9001 quality standard accreditation the Mint has an approved Quality Assurance Plan under the euro quality management system enabling it to produce euro coins if required.

This massive recoinage, involving the production of some 50,000 million new coins for issue in the twelve euro countries from 1 January 2002, is now entering its final phase. The Mint has participated not only as a supplier to these countries but also in the technical planning and quality management through its membership of the European Mint Directors Working Group and its sub-groups. It is also pursuing opportunities for involvement in the disposal of the huge tonnage of national coins to be

withdrawn by the euro countries during the cash changeover.

Demand from the euro countries will of course drop significantly after the launch of the new currency, but the Mint aims to maintain a substantial share of the ongoing blanks business as these countries top up their requirements beyond the initial launch quantities. Coinage markets elsewhere in the world have been relatively depressed in recent months, due in part to economic difficulties in some regions, but there are no clear signs of permanent decline in world coinage demand. The Mint, along with its counterparts in the Mint Directors Conference, keeps a close watch on the development of smart cards and liaises closely with the banking sector. Current indications are that smart card penetration of small transactions, where coins are mainly used, will be slow on average across the world and could be counterbalanced by greater use of coins in countries which at present rely solely on banknotes - a relatively expensive solution (whether paper or plastic) for low denominations because of their short life-span in circulation.

The Mint has invested heavily in plating facilities in order to meet customers' requirements for a robust and low-cost coinage. Coins produced from plated steel typically have a metal cost less than 50% of coins produced from non-ferrous alloys.

Royal Mint Services (RMS) - the joint venture with De La Rue which provides consultancy and manufacturing equipment to other mints - again paid a dividend to its parent organisations. Having successfully completed the Venezuelan Mint project, RMS is now involved in discussions with several countries about new mint or re-equipment projects.

Two new Regional Directors of Sales were recruited during the year, and plans are being developed to integrate the Sales team with the Mint's main operations in Llantrisant whilst preserving a presence in London. The Mint cooperated throughout the year with its Consortium partners, De La Rue plc and The Birmingham Mint Limited, who have worked with the Mint across the bulk of exporting activity for many years.

The sixty-one countries for whom coins were struck during the year included Bosnia-Herzegovina, Guernsey, Jersey, Jordan and Zimbabwe.







Collector Coins

United Kingdom Coins

The popularity of Millennium products, not unexpectedly, was difficult to sustain at the very high levels of the previous year but 2000-01 nevertheless provided opportunities for further success from the Millennium celebrations.

During the year, for instance, a special set of United Kingdom coins from the penny to the £2 coin was made available in sterling silver. Restricted to an issue of 15,000, the set proved to be virtually an instant sell-out, its popularity no doubt enhanced by the inclusion with royal permission of the four small Maundy coins - 1p, 2p, 3p and 4p - which are normally struck each year only for distribution to selected recipients on Maundy Thursday.

Also benefiting from the Millennium effect was the sale of gold sovereigns and half-sovereigns dated 2000, the first to be released in normal production standard for almost twenty years. They were, in fact, the first bullion sovereigns and half-sovereigns in modern times to be issued by the Royal Mint directly to the public, all previous issues having been handled through the agency of the Bank of England. With the premium above gold value kept to modest levels, the coins proved extremely popular and the experiment will be repeated in the coming year, especially as it did not detract from sales of the annual proof sovereigns

Deliberately created to include coins that are innovative and technically challenging, the Millennium Masterpiece Collection contains coins from twenty-four countries. Not all the coins in this unusual international collection were struck by the Mint.

and half-sovereigns where lower issue limits are set and generally attained.

Still on the theme of the Millennium, a second crown was issued in 2000 in continuation of the 1999-2000 dual-dated Millennium design by Jeffery Matthews. The silver proof version was differentiated from the 1999 issue by use of a gold spray technique to enhance the design elements of the map of the United Kingdom and the hands of the clock. Millennium crowns with the special Dome mintmark also continued to be struck during the year at the coining press set up in the Millennium Dome at Greenwich and, apart from the official Millennium Dome programme, had the distinction of being the best selling product there. With the closing of the Dome the coining press was removed to the Mint, where it is now at work in the Proof Coin Unit.

Away from the Millennium, the Queen Mother's 100th birthday on 4 August provided a celebration welcomed by everyone. A commemorative crown was issued in a base metal uncirculated pack and in silver and gold proof versions; for the first time there was also a silver piedfort - a coin of double thickness - and this too proved very popular. A portrait of the Queen Mother with cheering crowds in the background appeared on the reverse and, being the work of Ian Rank-Broadley FRBS, FSNAD, was pleasingly combined with the same artist's portrait of the Queen on the obverse.

Also offered to collectors during the year was the special 50p coin struck to commemorate the 150th anniversary of the Public Libraries Act of 1850. Among the successful initiatives to gain publicity for the coin, the designer of the reverse, Mary Milner Dickens, attended for a day at Harrods in London to sign coin packs for sale to customers.

In the midst of such success it is gratifying to report that coins struck by the Royal Mint won three out of the ten categories in the international Coin of the Year competition for coins dated 1999. The Britannia silver £2 coin was voted the Best Silver Coin, the Diana memorial coin the Most Popular Coin, and the Latvian Millennium button coin the Most Innovative Coinage Concept.



Markets

The Millennium boom in 1999 included a large number of gift buyers who wanted to commemorate the Millennium changeover without necessarily becoming regular collectors of Royal Mint products. Marketing activities in the United Kingdom nevertheless succeeded in increasing Coin Club membership by 5%, maintaining a very strong domestic market with the level of activity consolidating at 234,000 orders. Membership in the United States followed the trend in the UK, confirming the popularity and success of Mint products outside the domestic market.

The Mint website achieved successful growth during the year by doubling the number of orders attracted through the site. There has been further development of the site and, with an in-house web server, a members' area with order tracking will shortly be available.

Close collaboration continued with the Post Office and outlets have been extended in this market area with the addition of 200 more sub-post offices as regular customers.





Above: **The Bermuda \$5 Gombey's coin demonstrates the new dimension that the pad-printing machine has added to collector coins.**

Left: **The reverse design by Mary Milner Dickens for the Victorian anniversary crown conveys something of the social, economic and industrial progress of that remarkable era in British history.**
(A Victorian navy, illustrated in *Punch*, reproduced by courtesy of Mary Evans Picture Library)

Customer Service

The year saw a substantial improvement in customer service as a result of changes in operational methods and IT systems. Organisational changes, such as the establishment of account managers for trade customers, combined with the continued development of an Enterprise Resource Planning System (with Sales Order Processing, Forecasting and Planning modules) have begun to deliver these improvements. This will progress over the coming months into a full Planning & Scheduling System.

During the year, looking at overall UK Retail delivery, 88% of customers' orders were delivered within twenty-five days, slightly short of the target of 95% in twenty-five days but comparing favourably with an average of 68% in 1999-2000. Encouragingly, the number of orders fulfilled within fourteen days almost doubled to 61% compared to 32% in 1999-2000, and every effort will be made to improve delivery performance over the coming year.

Developing Partnerships and Products

This is an important area for the collector coin business, offering the opportunity to extend the product range by in-house development and by working with partner organisations. In 2000-01 a collection of George V gold sovereigns was put together by buying back coins from the secondary market, the collection including a sovereign from each of the overseas branches of the Royal Mint then in operation. The sets were well received and sold out very quickly, encouraging plans to develop similar collections when opportunities arise in the future.

The Mint continues to work closely in partnership with the British Philatelic Bureau and Deben Security Printing, as for example in the marketing of stamp-related pendants and cuff-links and a combined coin and banknote set to commemorate the Queen Mother's 100th birthday. The Queen Mother's birthday also provided the opportunity to develop products with Edinburgh Crystal, Caithness Glass and Toye Kenning Spencer.

Following the recommendations of the Treasury Review of the Royal Mint, a New Products Development Strategy was devised with the assistance of consultants. This was approved and, in addition to coin-related products, work was put in hand to implement the strategy by the development of non-coin-related gifts and collectibles. These new products will be offered during 2001-02.

Medals

Official Medals

The Royal Mint was able to meet fully on time all the requirements of the Army Medal Office at Droitwich. This simple statement perhaps does less than justice to the friendly relationship which has long existed between the Mint and the Army Medal Office and which, through regular consultation of both a formal and an informal character, ensures a good match of requirements against capacity.

The most notable development during the year was the completion of the new Operational Service Medal. In November 1999 the Mint had been officially notified of the intention to replace the existing General Service Medal (1962) with the Operational Service Medal, to be used to recognise all campaign service beginning

after 1 January 2000. Helpful discussion ensued with the Ministry of Defence and the Ceremonial Branch of the Cabinet Office and three artists were then invited to submit designs for the reverse of the new medal.

These designs were examined by the Royal Mint Advisory Committee at its meeting on 30 March 2000, when a drawing by Timothy Noad was recommended for approval. Mr Noad's design shows the Union flag within the points of a compass to represent the fact that the medal may be awarded for service anywhere in the world, while the three Armed Services are

First specimens of the new Operational Service Medal were well received. (Medal Press by Molyneux Associates)





Above: A successful start to a planned series of calendar medals was provided by the 2001 Shakespeare medal.

Right: The 2001 World Cup Sevens medal was one of many for which designs were prepared by members of the Mint's Engraving Department.

represented by naval, mural and astral coronets. Dies have since been manufactured and the first medals struck and delivered to the Army Medal Office.

At the year end work was proceeding on two other official medals, one for the Royal Fleet Auxiliary Service and the other for the Northern Ireland Prison Service. Further details will be given in next year's *Annual Report* but it need be no secret that, in the case of the Royal Fleet Auxiliary Service Medal, Timothy Noad has again been the successful artist.

Millennium Medals

The final tally of orders for Millennium medals based on Felicity Powell's dandelion design brought the total to well over 100,000 medals. A response at this level had not been expected when the project had first been discussed with the British Art Medal Society, and it would be encouraging to think that there is evidence here that in the right circumstances medals can prove a highly popular and desirable memento. Plainly, the significance of the Millennium was a major factor but what may also have assisted was the Mint's ability to combine Felicity Powell's dandelion with a customised design, such as a school badge or an inscription.

It is hoped that similar success will attend the Mint's plans to offer a medal in commemoration of the Golden Jubilee of Her Majesty The Queen, for which preparations are already well advanced.

Commercial Medals

Medals continued to be supplied to a wide range of commercial customers and other clients both in the United Kingdom and overseas, with deadlines that occasionally bordered on the heroic.

Last year's *Annual Report* drew attention to the decision to bring to an end the series of centenary medals which had begun in the late 1980s. In its place other medal projects are to be promoted and, in earnest of this, the Mint created a calendar medal for the year 2001. Designs were commissioned from the sculptor David Cornell, with the obverse showing a portrait of William Shakespeare and the reverse the twelve months of the year within a decorative border.

To assist the usefulness of the medal as a calendar it was fitted to a stand to allow it to be displayed more easily; and it is gratifying to report that it has sold sufficiently well that another calendar medal, developing the Shakespeare theme, will be struck for the year 2002.





The Mint now has the commercial freedom to sell gifts and collectibles beyond the traditional range of coins and medals. Shown here is a selection of the articles being promoted by the New Product Development team.





Royal Mint Advisory Committee, 2000-01

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 examination of all new designs for United Kingdom coins and official medals.

Appointment of Chairman

The year 1999 had ended with the retirement of His Royal Highness The Prince Philip, Duke of Edinburgh, as President of the Committee. He had served in this specially-created capacity for more than forty-seven years and, to acknowledge this remarkable period of service, it was decided not to appoint a new President but to seek instead a Chairman who could be appointed for a fixed term, with the Deputy Master, who had nominally been Chairman, becoming ex officio Deputy Chairman.

The new Chairman, in company with Lady Frayling, visited the Mint to familiarise himself with the engraving and coin production processes.

On the recommendation of the Chancellor of the Exchequer, Her Majesty The Queen has now approved the appointment as Chairman for an initial period of four years of Professor Sir Christopher Frayling. Sir Christopher is Rector of the Royal College of Art and, among many part-time appointments, Chairman of the Design Council. He is well known as an art historian, critic and broadcaster, with award-winning work appearing regularly on radio and television. Currently a Trustee of the Victoria and Albert Museum, he was until recently a member of the Arts Council of England, while in the 1980s he was a governor of the British Film Institute and a member of the Crafts Council.

Meetings

The Committee met three times during the year. On 6 July and 2 November 2000 meetings were held at Cutlers' Hall in the City of London under the acting Chairmanship of the Deputy Master, while the third meeting on 14 February 2001, also at Cutlers' Hall, was chaired for the first time by Professor Sir Christopher Frayling.

Preparation of a new Great Seal of the Realm loomed large in the Committee's deliberations as it supervised the development of designs by the sculptor James Butler R.A. His work had been selected by the Committee following a limited competition involving a small group of talented and highly experienced artists, but in the event it did not prove entirely easy to preserve the free movement that had been such an attractive feature of Mr Butler's original drawings. Mr Butler, however, stuck to his task with commendable fortitude and was rewarded with a sitting by Her Majesty The Queen, while for its part the Mint demonstrated its ingenuity and its willingness to innovate by allowing Mr Butler to model at the very large size at which he felt comfortable. At the end of the year the new Seal was not quite ready for formal royal approval and a description of its designs must therefore be delayed until next year's *Annual Report*.

If the Great Seal represented the most important and demanding commission to come before the Committee for some time, the year was also remarkable for the



Committee's handling of the design for the £2 coin commemorating the centenary of the first transatlantic wireless message by Marconi. Here, for the first time ever, the Committee agreed to submit to public consultation the three designs which it had short-listed for the reverse of the coin. This was done by means of a competition in the *Radio Times*, a mailer to a large segment of Coin Club members and a page on the Mint website; and the experiment, prompted by the Committee itself, may be judged a success with no fewer than 13,750 votes being cast for the three designs. Opinion was fairly evenly divided but the design by Robert Evans, a senior member of the Royal Mint Engraving Department, had a narrow lead and it was this design that the Committee was happy to recommend for approval at its meeting on 6 July.

During the year the Committee also considered designs for forthcoming coins and medals to commemorate the Golden Jubilee in 2002, for a two-pound coin to commemorate next year's Commonwealth Games, and for the reverse of the new

Royal Fleet Auxiliary Service Medal. In all these cases the current policy was pursued of restricting the design competition to a very limited number of artists, enabling them to be paid a reasonable remuneration for taking part and for devoting time to the generation of ideas. At the year end most of this work had yet to be finalised, but a design by Timothy Noad, a herald painter at the College of Arms, had been approved for the Royal Fleet Auxiliary Service Medal.

Membership

Apart from the appointment of the new Chairman, the only other change in the composition of the Committee during the year under review arose from the retirement through ill health of the Rt Hon Lord Camoys GCVO. He was replaced by the Rt Hon Lord Luce, his successor as Lord Chamberlain.

Congratulations are warmly extended to Mr Michael Harvey, who has been the Committee's lettering expert for the past ten years and who received an MBE in the New Year Honours List for services to art.

The unprecedented public consultation exercise for the Marconi £2 reverse design included the incentive of a prize draw for those taking part.

MEMBERSHIP OF THE COMMITTEE

(with date of appointment)

Professor Sir Christopher Frayling
(Chairman)
January 2001

Mr Roger Holmes
(Deputy Master of the Royal Mint
and ex officio Deputy Chairman)
January 1993

Mr John Porteous, OBE July 1968

Mr Michael Harvey, MBE February 1991,
re-appointed January 1998

Mrs Philomena Davidson Davis March 1994

Mr Mark Jones March 1994

Mr Peter Gwynn-Jones, CVO January 1996

Mr Stuart Devlin, AO, CMG January 1998

Miss Katharine Eustace January 1998

Sir Peter Michael, CBE March 1999

Miss Rosalind Savill, CBE March 1999

The Rt Hon Lord Luce January 2001





Roger Holmes
Deputy Master and Comptroller
(Chief Executive)

EXECUTIVE DIRECTORS



Keith Cottrell
Director of Sales



Allan Pearce
Director of Human Resources
and Corporate Affairs



Graham Davies
Director of Finance



Allan Wallace
Director of Collector Coin



Geoff Payne
Director of
Engineering Services



Mick Slater
Director of
Circulating Coin Production

People

Employee Relations

In addition to being the second year of the Partnership Agreement with the AEEU, 2000-01 has perhaps fittingly been the year in which, working jointly with AEEU, IPMS and PCS representatives, the Royal Mint has completed the development of a new job structure which unifies what were previously more than 1000 industrial and non-industrial jobs into six broad bands. The next step is to develop agreed performance management and pay structures.

Further evidence of this developing 'single table' relationship is the joint application to the DTI 'Partnership at Work Fund'.

Employment and Attendance

The average number of employees reached a peak for 2000-01 of 1136 compared to 1084 in 1999-2000. However, the total number of full-time equivalent employees as at 31 March 2001 reduced to 1088 with the passing of peak demand for euro blanks from first wave entrants to the European Monetary Union and for Millennium-related collector products.

There was a reduction in the number of casual employees at year end to forty-two from a figure of ninety-one twelve months earlier, demonstrating the Mint's increasing ability to be flexible in meeting customers' requirements.

After the 17% reduction in absence which was achieved in 1999-2000, the year 2000-01 saw another reduction in non-industrial absence. A higher incidence of long-term absence, reflecting a mature industrial workforce and the demands of their industrial occupations, outweighed

the further improvement. This was addressed by a number of ill-health retirements in 2000-01.

Recruitment and Retention

Demand in the labour market within South Wales eased somewhat in 2000-01 with the exception of some specialist functions where the Mint has had to continue to respond to competitive pressures.

Fifty-two appointments during the year reflected the emphasis placed on updating the skills mix within the Mint in line with market requirements.

Recruitment initiatives included the establishment of a new outbound call centre to develop Collector Sales and a Product Development team for non-coin gifts and collectible products.

The target of an average four-week lead time between agreeing a job description for recruitment and offering an appointment was achieved.

All appointments are made on merit and on the basis of fair and open competition. This is ensured by the Mint's human resources systems, which conform to statutory requirements and are audited by the Civil Service Commission.

Unified Broad Bands	Previous Non-Industrial Grade	Previous Industrial Grade	Successful (includes reserves)		Ethnicity	Disability	Recruited	
			Male	Female			Male	Female
2	C/D		3	1	British	Nil	2	0
4	G		2	0	British	Nil	2	0
	H		0	2			0	2
5	J	Craft	8	2	British	Nil	4	1
5/6	K	Mint Skilled	25	27	British	Nil	18	21
6	L	Semi Skilled	5	1	British	Nil	2	0
Totals			43	33			28	24



NON-EXECUTIVE DIRECTORS



David Stark



Lyndon Haddon



Jan Smith



David Trapnell



Lucy Woods

Above: Pupils from a local school successfully completed a useful project in the Melting, Rolling and Blanking Unit.

Left: A team-leader consulting the Total Productive Manufacturing notice board in the Coin Press Room. (Molyneux Associates)



Development and Training

The extensive programme of training to underpin the major change initiatives, particularly within the circulating coin business, is now nearing completion.

Overall, the average number of training days per employee (including on-the-job training) was 9.7, compared with a peak of 14.2 last year and the Mint's minimum commitment of five per year.

Some milestones for 2000-01 include:

- The completion of the multi-skill training programme. This is contributing to greater flexibility and reduction in downtimes for production departments.
- Completion of team development programmes for both Circulating and Collector Coin Management Teams.
- Training all reporting officers in attendance management techniques. This initiative aims to improve attendance in line with Ministerial targets.
- Achieving a successful audit of the approved status for the Mint's Apprenticeship Scheme. This involved being inspected by Her Majesty's Inspectors for Schools and Colleges (ESTYN), with successful audit now being a condition for organisations applying for funding to support an apprenticeship scheme.

The Mint has been an accredited Investor in People since 1996.

Communication and Involvement

There has been some encouraging support of and additions to the Mint's ongoing commitment to direct communication with employees, including that evidenced by the actions of employee representatives.

Firstly, local representatives and their

full-time officers took part in the communication video distributed to all employees to illustrate the successful outcome to this initial joint working party and to demonstrate their support for the initiative.

Secondly, after some months of difficult negotiation, the 2000 pay talks were concluded with the IPMS and PCS unions with agreement that, in future, the dissemination of the agreed resolution to negotiations between the Royal Mint, PCS and IPMS will be handled by joint communication from the unions and Mint management. This will ensure that, before any required ballot of members takes place, all affected staff will have a full joint briefing or communication and have the opportunity to raise questions and concerns.

Lastly, employees' perceptions and attitudes were again measured for the Mint by the Bath University research team. Significant changes since the 1999 survey included:

- Increase in levels of motivation.
- Increase in satisfaction with influence over job.
- Increase in opportunities for career advancement.
- Sense of teamworking increased.
- Managers better at dealing with problems at the workplace.
- Improved relationships between management and employees.

Regular monthly communications with employees - through team briefing and feedback together with the staff newsletter *Mint Condition* - have been maintained and have been supplemented by employee briefings on business plans when appropriate.

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) made under the Government Trading Funds Act 1973. The operations of the Royal Mint provided for under this order are the manufacture and supply of coins, medals, seals and similar articles 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 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 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 determined that the further financial objectives desirable of achievement by the Royal Mint for the period 1 April 2000 to 31 March 2001 should be a return of at least 7%. For this purpose the annual rate of return was to be calculated using modified historical cost operating profit as a percentage of the average net assets at modified historical cost.

Financial Review

Sales in the year of £96.2 million include £45.7 million (48%) to overseas customers.

The modified historical cost operating loss for the year before interest was £0.5 million.

No dividend was due to the Consolidated Fund and a loss of £0.683 million transferred to reserves.

Capital expenditure of £3.5 million was incurred in the year.

Collector Coin

Due to the statutory requirement for new trading services to be carried out on-Vote for a reasonable period, a token estimate (Class XVI Vote 16) was introduced in 2000-01 to enable the Royal Mint to develop its non-coin operations. The outturn details to be reported on this Appropriation Account are included in the Mint's published accounts for the financial year 2000-01.

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 metals which are traded on the London Metal Exchange and whose prices, therefore, 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 metal prices.

Similarly, where collector coins are manufactured for sale through the Royal Mint's marketing and promotions 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 L.M.E. prices at 31 March 2001. In addition, precious metal loans are used to finance the Royal Mint's working capital of gold and silver. The loans 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).

General

The policy of paying creditors complied with the Better Payment Practice Code. 95% of invoices were paid within either thirty days or the agreed period.

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

The policy continued of employing and training disabled persons, wherever their aptitudes and abilities allow. Where employees become disabled we endeavour 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 at 31 March 2001 was 1088.

Employee communications are an integral element of the Total Quality programme and include the issue of a monthly newsletter and regular feedback meetings involving all employees. Each employee receives a copy of the *Annual Report* which includes the audited accounts.

Roger Holmes

Accounting Officer
3 July 2001

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

Under section 4(6) of the Government Trading Funds Act 1973 the Treasury have 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;
- 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 the system of internal financial control

As Accounting Officer, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated by the Royal Mint.

The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial 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 budget which is reviewed and agreed by the Executive Board
- regular reviews by the Executive Board of periodic and annual financial reports which indicate financial performance against the forecasts
- setting targets to measure financial and other performance
- clearly defined capital investment control guidelines
- as appropriate, formal project management disciplines

PricewaterhouseCoopers undertake a review on an annual basis of the Royal Mint's system of internal financial control. They undertake two audit visits per annum and the results of the audits are presented to the Audit Committee (who meet twice a year) and are reported to the Finance Director and myself.

My review of the effectiveness of the system of internal financial control is informed by the executive managers who have responsibility for the development and maintenance of the financial control framework, the work of PricewaterhouseCoopers, the Audit Committee which oversees their work, and comments made by the external auditor.

As Accounting Officer, I am aware of the recommendations of the Turnbull Committee and I am taking reasonable steps to comply with the Treasury's requirement for a statement of internal control to be prepared for the year ended 31 March 2002, in accordance with guidance issued by them.

Roger Holmes
Accounting Officer
3 July 2001

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

I certify that I have audited the financial statements on pages 28 to 36 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 26, 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 page 26 reflects the Royal Mint's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial 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.

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, or by 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 2001 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.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
5 July 2001

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

Note (website edition only)

The maintenance and integrity of the Royal Mint website is the responsibility of the Accounting Officer; the work carried out by me as auditor does not involve consideration of these matters and, accordingly, I accept no responsibility for any changes that may have occurred to the financial statements or my audit report since they were initially presented on the website.

Operating Account for the year ended 31 March 2001

	Notes	£'000	2000-2001 £'000	1999-2000 £'000
TURNOVER	2		96,241	95,573
Change in stocks of finished goods and work in progress		3,776		(3,043)
Own work capitalised		134		120
Other operating income		412		129
Raw materials and consumables		(46,014)		(39,950)
Other external charges		(6,130)		(7,022)
Staff costs	4	(30,594)		(27,915)
Depreciation and other amounts written off tangible fixed assets	6	(4,798)		(4,259)
Other operating charges		(13,520)		(13,288)
			(96,734)	(95,228)
OPERATING (LOSS)/PROFIT	3		(493)	345
INTEREST RECEIVABLE AND SIMILAR INCOME			275	460
INTEREST PAYABLE AND SIMILAR CHARGES	5		(465)	(137)
(LOSS)/PROFIT FOR THE YEAR			(683)	668
DIVIDEND PAYABLE TO THE CONSOLIDATED FUND			-	(500)
RETAINED PROFIT FOR THE YEAR			(683)	168

No activities have been discontinued during the year.

The notes on pages 32 to 36 form part of the modified historical cost accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2000-2001 £'000	1999-2000 £'000
(Loss)/Profit for the year	(683)	168
Unrealised surplus on revaluation of property	796	2,712
Unrealised surplus on revaluation of plant and machinery	380	92
Unrealised (deficit)/surplus on revaluation of uncommitted metal	(371)	488
Total recognised gains and losses relating to the year	<u>122</u>	<u>3,460</u>

HISTORICAL COST PROFITS AND LOSSES

	2000-2001 £'000	1999-2000 £'000
Reported (loss)/profit for the year	(683)	168
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	223	193
Historical cost (loss)/profit for the year	<u>(460)</u>	<u>361</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 2000	7,000	6,091	57,039	70,130
Movements in the year:				
Revaluations				
Fixed Assets	-	1,176	-	1,176
Stocks	-	(371)	-	(371)
(Loss) for the year	-	-	(683)	(683)
Reclassification of distributable reserves	-	(223)	223	-
As at 31 March 2001	<u>7,000</u>	<u>6,673</u>	<u>56,579</u>	<u>70,252</u>

The notes on pages 32 to 36 form part of the modified historical cost accounts.

Balance Sheet as at 31 March 2001

	Notes	2001	2000
		£'000	£'000
FIXED ASSETS			
Tangible Assets	6	49,053	49,126
CURRENT ASSETS			
Stocks		49,114	45,818
Debtors		8,059	9,558
Cash at bank and in hand		3,508	5,077
		<u>60,681</u>	<u>60,453</u>
CREDITORS			
Amounts falling due within one year		<u>(39,251)</u>	<u>(39,134)</u>
NET CURRENT ASSETS	7	<u>21,430</u>	<u>21,319</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>70,483</u>	<u>70,445</u>
FINANCED BY:			
CREDITORS			
Amounts falling due after one year	8	231	315
CAPITAL AND RESERVES			
Public dividend capital		7,000	7,000
Revaluation Reserve		6,673	6,091
Profit and Loss Account		<u>56,579</u>	<u>57,039</u>
		<u>70,252</u>	<u>70,130</u>
		<u>70,483</u>	<u>70,445</u>

The notes on pages 32 to 36 form part of the modified historical cost accounts.

Roger Holmes
Accounting Officer
3 July 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	2000-2001 £'000	1999-2000 £'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(a)	(401)	5,860
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		234	437
Interest paid		(353)	(142)
		<u>(119)</u>	<u>295</u>
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(3,549)	(6,536)
EQUITY DIVIDENDS PAID		<u>(500)</u>	<u>-</u>
CASH (OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES		(4,569)	(381)
MANAGEMENT OF LIQUID RESOURCES			
Increase in National Loans Fund loan		<u>3,000</u>	<u>2,000</u>
(DECREASE)/INCREASE IN CASH IN THE YEAR	(b)	<u><u>(1,569)</u></u>	<u><u>1,619</u></u>
 (a) RECONCILIATION OF OPERATING (LOSS)/PROFIT WITH THE NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		2000-2001 £'000	1999-2000 £'000
Operating (loss)/profit		(493)	345
Depreciation charge		4,798	4,259
Movements in			
Stocks		(3,667)	(2,113)
Debtors		1,540	794
Creditors (excluding dividend)		<u>(2,579)</u>	<u>2,575</u>
		<u>(401)</u>	<u>5,860</u>
 (b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS		2000-2001 £'000	1999-2000 £'000
(Decrease)/Increase in cash in the year		(1,569)	1,619
Cash inflow from increase in borrowings		<u>(3,000)</u>	<u>(2,000)</u>
Movement in net funds		(4,569)	(381)
Net funds at 1 April		<u>3,077</u>	<u>3,458</u>
Net (debt)/funds at 31 March		<u><u>(1,492)</u></u>	<u><u>3,077</u></u>
 (c) ANALYSIS OF NET FUNDS		2000-2001 £'000	1999-2000 £'000
Cash at Bank and in hand		3,508	5,077
NLF short term loan		<u>(5,000)</u>	<u>(2,000)</u>
		<u><u>(1,492)</u></u>	<u><u>3,077</u></u>

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 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 upon 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.
- 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.

(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:

	%
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 London Metal Exchange prices ruling at 31 March 2001. 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 option contract are translated at the rate of exchange ruling on the date of conversion. Balances held in foreign currencies not covered by forward option contracts are translated at the rate of exchange ruling at the balance sheet date.

(h) Insurance

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

(i) Pension Scheme

Payment is made by the Trading Fund into the Consolidated Fund of such sums as may be appropriate as representing accruing liabilities of the Treasury in respect of pensions and other similar benefits for persons who have been employed in the funded operations and in respect of the administrative expenses attributable to the liabilities and their discharge.

Note 2**TURNOVER**

Turnover is wholly attributable to the manufacture of coins and similar articles.

	2000-2001	1999-2000
	£'000	£'000
United Kingdom	50,492	43,444
Overseas	45,749	52,129
	<u>96,241</u>	<u>95,573</u>

Note 3**OPERATING (LOSS)/PROFIT**

Operating (loss)/profit is stated after charging:

	2000-2001	1999-2000
	£'000	£'000
Sub-contracted work and semi-processed material	6,130	6,916
Audit fees	79	62
Hire of plant and machinery	138	106

Note 4**REMUNERATION AND EMPLOYMENT**

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

	Age	Remuneration including performance pay £'000	Real increase in pension @ 60 £'000	Total accrued pension @ 60 £'000
Executive Directors				
Roger Holmes Chief Executive	53	80-85	0-2.5	20-25
Keith R Cottrell Director of Sales	52	60-65	0-2.5	5-10
Allan E Pearce Director of Human Resources and Corporate Affairs	51	60-65	0-2.5	0-5
Graham J Davies Director of Finance	55	50-55	0-2.5	15-20
Alan Wallace Director of Collector Coin	57	55-60	0-2.5	25-30
Geoff Payne Director of Engineering Services	57	50-55	0-2.5	20-25
Mick Slater Director of Circulating Coin Production	50	45-50	0-2.5	0-5

Remuneration includes salary, performance pay and all other benefits.

In addition the Chief Executive is reimbursed his travel and subsistence expenses for travel between the Royal Mint's London office and Llantrisant. These expenses are subject to income tax and the tax is paid by the Royal Mint. The expenses (gross of tax) in respect of the year ended 31 March 2001 were £15,277.

Non-Executive Directors	Age	Fees (£'000)
Gisela Burg CBE (Retired 31 January 2001)	61	5-10
Sidney Taylor (Retired 31 January 2001)	66	5-10
Lyndon Haddon	59	5-10
David Stark	61	5-10
Jan Smith	53	5-10
David Trapnell (Appointed 1 February 2001)	56	0-5
Lucy Woods (Appointed 1 February 2001)	42	0-5

Note 4 (continued)			
TOTAL STAFF COSTS	2000-2001	1999-2000	
	£'000	£'000	
Wages and salaries	25,846	23,748	
Social security costs	1,932	1,758	
Other pension costs	2,816	2,409	
	<u>30,594</u>	<u>27,915</u>	
AVERAGE NUMBER EMPLOYED	2000-2001	1999-2000	
Production	907	863	
Sales and Marketing	81	71	
Administration	148	150	
	<u>1,136</u>	<u>1,084</u>	

The total number of persons employed at 31 March 2001 was 1,088.

Note 5			
INTEREST PAYABLE	2000-2001	1999-2000	
	£'000	£'000	
On loans repayable within five years	465	137	
	<u>465</u>	<u>137</u>	

Note 6			
TANGIBLE FIXED ASSETS	Freehold land and Buildings	Plant and Machinery	Total
	£'000	£'000	£'000
Valuation			
At 1 April 2000	16,000	68,824	84,824
Additions	48	3,501	3,549
Disposals	-	(2,010)	(2,010)
Revaluation	417	677	1,094
At 31 March 2001	<u>16,465</u>	<u>70,992</u>	<u>87,457</u>
Depreciation:			
At 1 April 2000	-	35,698	35,698
Charge for year	379	4,419	4,798
Disposals	-	(2,010)	(2,010)
Revaluation	(379)	297	(82)
At 31 March 2001	<u>-</u>	<u>38,404</u>	<u>38,404</u>
Net book value at 31 March 2001	<u>16,465</u>	<u>32,588</u>	<u>49,053</u>
Net book value at 1 April 2000	<u>16,000</u>	<u>33,126</u>	<u>49,126</u>

The gross current cost of plant and machinery has been calculated on the basis of indices published by the Office for National Statistics.

Land and buildings are stated at open market current use valuation at 31 March 2001 or depreciated replacement cost as at that date in the case of buildings of a specialist nature. This valuation was provided by Chesterton International Property Consultants plc in accordance with the guidelines issued by the Royal Institution of Chartered Surveyors.

Note 6 (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 2001			
Cost	15,805	59,809	75,614
Accumulated Depreciation	(4,036)	(28,009)	(32,045)
Net book value at 31 March 2001	<u>11,769</u>	<u>31,800</u>	<u>43,569</u>
Net book value at 1 April 2000	<u>12,100</u>	<u>32,415</u>	<u>44,515</u>

Note 7

NET CURRENT ASSETS	£'000	2001 £'000	2000 £'000
Current assets			
Stocks			
Metal stocks	24,186		28,379
Work in progress (excluding metal)	6,788		6,780
Stores and packing materials	2,373		2,225
Finished goods	<u>15,767</u>		<u>8,434</u>
		49,114	45,818
Debtors			
Trade debtors	6,912		8,000
Other debtors	658		1,162
Prepayments and accrued income	<u>489</u>		<u>396</u>
		8,059	9,558
Cash			
Cash at bank	3,507		5,076
Cash in hand	<u>1</u>		<u>1</u>
		<u>3,508</u>	<u>5,077</u>
Current Assets		60,681	60,453
Creditors: amounts falling due within one year			
NLF Short Term Loan	(5,000)		(2,000)
Trade creditors	(26,040)		(26,082)
Other creditors	(535)		(541)
Payments received on account	(6,154)		(7,981)
Taxation and social security	(763)		(769)
Accruals and deferred income	(759)		(1,261)
Dividend payable to the Consolidated Fund	<u>-</u>		<u>(500)</u>
		(39,251)	(39,134)
NET CURRENT ASSETS		<u>21,430</u>	<u>21,319</u>

Metal stocks of £24.186 million (2000: £28.379 million) include a base stock of copper and nickel with a net realisable value of £2.853 million at 31 March 2001 (2000: £3.223 million) and £16.946 million (2000: £18.645 million) in respect of precious metal held for third parties and reflected in trade creditors. The current replacement cost of other stocks and work in progress is not significantly different from the balance sheet values.

Note 8	2001	2000
CREDITORS: amounts falling due after one year	£'000	£'000
Pension commitments	231	315

Provision has been made for the liability on the Trading Fund to pay the pensions of employees who have retired early until they attain normal pensionable age.

Note 9 **PENSION COSTS**

All employees of the Royal Mint are civil servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. For 2000-01 contributions of £2.816 million were paid to the Paymaster General at rates determined from time to time by the Government Actuary and advised by the Treasury. For 2000-01 these rates were between 12% and 18.5%.

Pension benefits are provided through the Principal Civil Service Pension Scheme. This is a statutory scheme which provides benefits on a 'final salary' basis at a normal retirement age of 60. 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. Pensions increase in payment in line with the Retail Price Index. 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.

Note 10	2001	2000
CAPITAL EXPENDITURE APPROVED	£'000	£'000
Commitments in respect of contracts	628	1,767

Note 11 **RELATED PARTY TRANSACTIONS**

The Royal Mint is an Executive Agency and Trading Fund.

HM Treasury is regarded as a related party. During the year, the Royal Mint has had a number of transactions with that Department.

In addition the Royal Mint has had a number of 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 key management staff or other related parties has undertaken any transactions with the Royal Mint.

Note 12 **NUMERICAL DISCLOSURES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS**

Hedges

As explained in the Financial and General Reports on pages 24 and 25, the Royal Mint's policy is to hedge the following exposures:

- metal price risk
- currency risk.

The metal contracts relate entirely to the purchase of raw materials for use by the Royal Mint in its manufacturing process.

The forward exchange contracts which were outstanding at 31 March 2001 amounted to £13.6 million (2000: £7.2 million). If these contracts were translated at the year-end rate, there would have been a loss of £1.4 million (2000: £0.3 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 2002.



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