

Royal Mint Annual Report 2001-02

Royal Mint Management Board

As at 31 March 2002

Gerald Sheehan
Chief Executive

EXECUTIVE DIRECTORS

Keith Cottrell
Director of Sales

Graham Davies
Director of Finance

Geoff Payne
Director of Engineering Services

Allan Pearce
Director of Human Resources and Corporate Affairs

Mick Slater
Director of Circulating Coin Production

Alan Wallace
Director of Collector Coin

NON-EXECUTIVE DIRECTORS

David Stark (Chairman)

Lyndon Haddon

Jan Smith

David Trapnell

Lucy Woods

Bankers Bank of England

External Auditors Comptroller and Auditor General

Internal Auditors PricewaterhouseCoopers

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The Accounts of the Royal Mint Trading Fund as at 31 March 2002 together with the Certificate and Report of the Comptroller and Auditor General thereon at pages 37-44 are prepared pursuant to section 4(6) of the Government Trading Funds Act 1973. (In continuation of House of Commons Paper No 80 of 2000-2001.) Presented pursuant to Act 1973, c.63, s.4(6).

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Chief Executive's Report

The Royal Mint's operating loss of £18.4 million for 2001-02 confirms clearly the need for radical changes in our business, as the world market contracts.

The overseas business accounted for 31% of total sales in value terms, and coins and ready-for-striking blanks were produced for fifty-five countries. However, overall demand this year has been affected by the European situation, post the euro peak of production, and the general malaise in the other overseas markets. This has increased pressure on selling prices and margins.

A competitive benchmarking exercise completed recently has identified the need to improve our cost base.

To achieve this requires a major change in the organisational structure, a consequent reduction in employment levels and a change in working practices to improve flexibility, customer service levels and productivity.

This restructuring was announced at the end of March. The key elements are a change in management organisation to improve accountability, a delayering exercise specifically in the Circulating Coin business, and a reduction in employee levels of up to 220 people.

In his capacity as chairman of the non-executive directors, David Stark, takes the chair at the Management Board meetings and both the Audit and Remuneration committees.

In order to ensure that the various areas of expertise available within the board are used effectively changes in the future format and timing of meetings have been agreed.

Review of Trading

Sales of £79.7 million – £46.7 million for Circulating Coin business and £33.0 million for Collector Coin business – were 17.2% lower than last year.

This reflected the reduced demand in the United Kingdom and the difficult market for overseas coin and blanks, where excess capacity in the industry was a major issue.

As a result of these factors, shift patterns in the Circulating Coin business reduced progressively during the year. These actions, however, were not sufficient to counteract market conditions.

The Collector Coin business also had a difficult year, mainly because of the poor demand for thematic coins, notably the £2 Marconi range.

On the positive side, agreements have been made with the Ministry of Defence and the Department of Culture Media and Sport for the supply of large numbers of Golden Jubilee medals. Interest in Golden Jubilee coins was also at a high level towards the end of the year and this has continued into 2002-03.

During 2001-02 there was a loss of banknotes from the Royal Mint. In all 1284 £20 notes intended for issue in special presentation packs, were taken from the Collector Coin area of the factory. As a result of the MoD Police and internal investigations, a number of improvements to physical security arrangements and working practices have been made.

Information concerning possible improper payments made by the Royal Mint, in previous years, prompted a number of actions. After an internal investigation, it was agreed with

Left: The Golden Jubilee commemorative crown shows an equestrian portrait of the Queen on the obverse and a more mature, reflective portrait on the reverse. Both portraits are the work of Ian Rank-Broadley, FRBS, FSNAD.
(Background image Popperfoto)

Right: The gold and silver Britannia coins for 2001 feature a new standing Britannia design by Philip Nathan.





Above: **The Duke of Wellington admiring the second of two Waterloo Medal salvers. Together, the two salvers reproduce the obverse and the reverse of the famous Waterloo Medal by the nineteenth-century engraver Benedetto Pistrucci.**

Below: **Old technology, in the form of the reducing machine on the right, has almost been entirely superseded by computer-aided scanning and engraving (left).**

Treasury Ministers that the Serious Fraud Office (SFO) should be informed. The SFO is now carrying out an investigation and once this is concluded it will determine what future action (if any) is required.

Concurrently with this investigation, it was agreed with Treasury Ministers that an independent review of internal financial controls should be undertaken. This report was completed and submitted to the Financial Secretary to the Treasury on 24 September. It included my action plan for implementing their recommendations.

Looking to the future

Our priority for 2002-03 must be to improve our overall cost position. The restructuring exercise which is being undertaken will improve accountability in all areas of the organisation, reduce our cost base and help us to respond more quickly and flexibly to customer requirements.

The key elements of the 2002-03 business plan are customer service, restructuring, cost reduction and cash management and each employee will

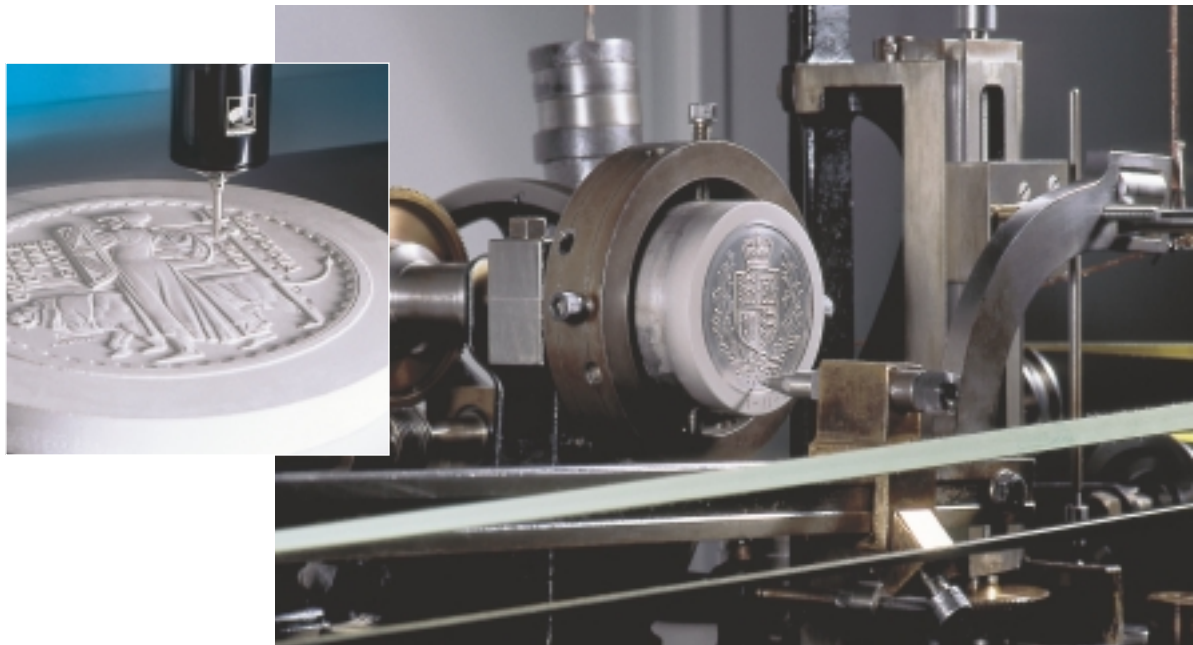
have at least one specific job objective which supports one of these success factors.

- The main customer service targets are set by the Financial Secretary to the Treasury and an improvement on our 2001-02 performance in all business areas is a priority for 2002-03.
- The Mint has recognised in its restructuring programme that fixed costs must be reduced. This will improve our competitive position and allow us to become more responsive to our customers and markets.
- Cost reductions are necessary in all areas of the business: these include improved performance in key processes, reduced capital expenditure and introducing the best practice of competitors.
- More stringent cash management controls affecting all aspects of working capital have been introduced in order to improve cash flow and minimise borrowings.

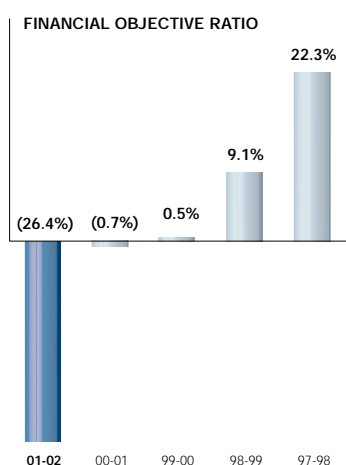
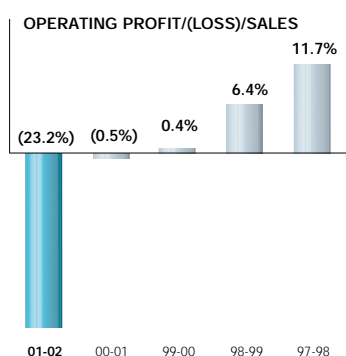
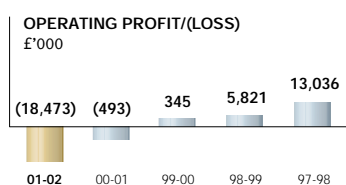
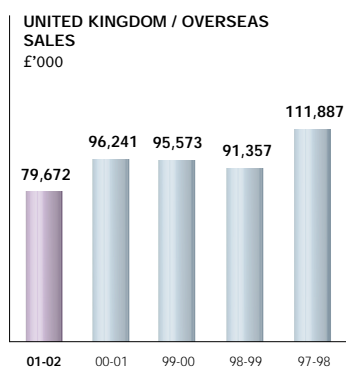
Having been appointed as Chief Executive in December 2001, I would like to extend to my predecessor, Roger Holmes, my best wishes for the future and for success in his new role as Chief Executive of St John Ambulance.

Finally, I would like to thank all employees for the positive way in which they have embraced the need for change in the organisation and look forward to working with them for the success of the Mint.

Gerald Sheehan
Chief Executive



Financial Summary

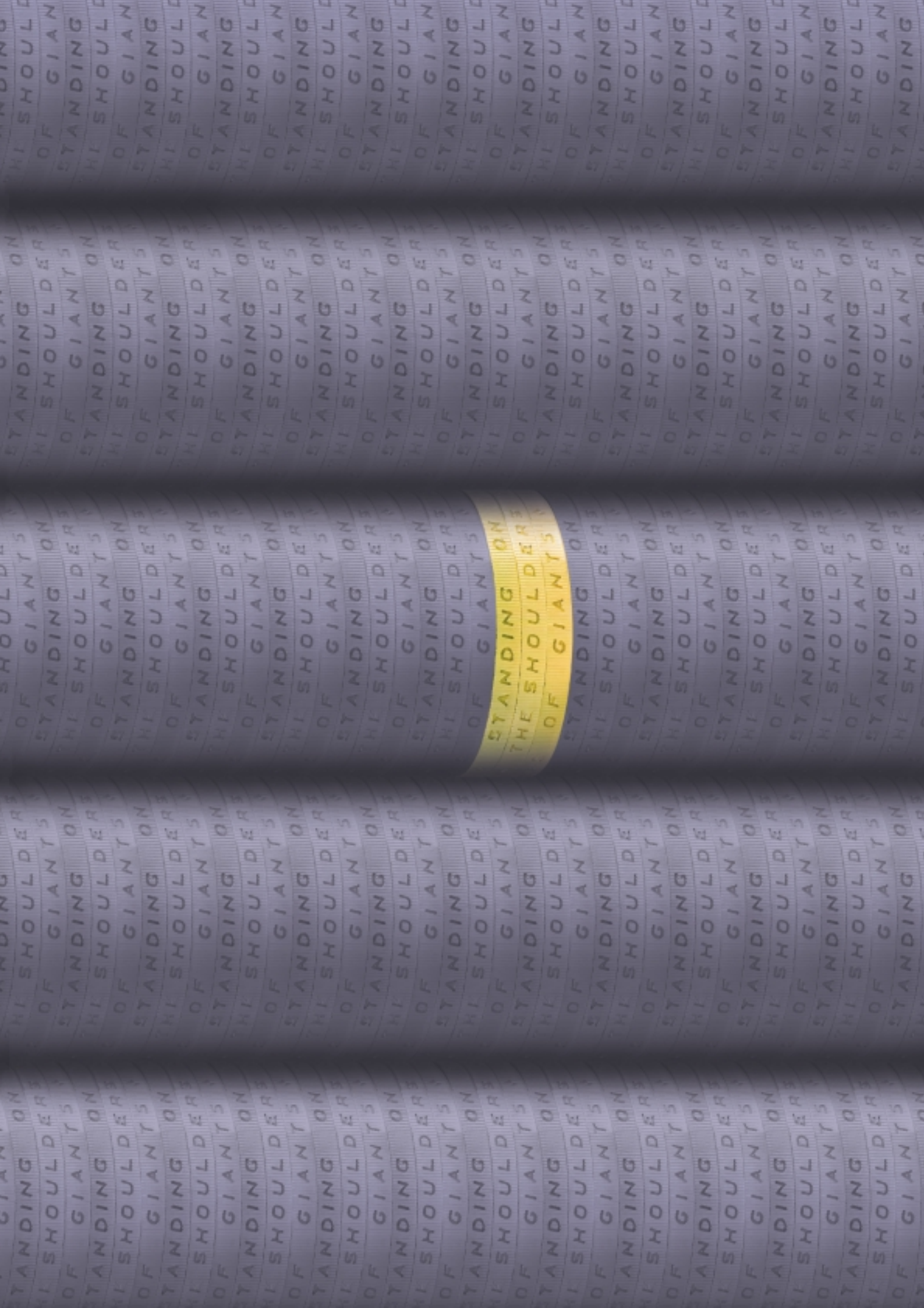


	2001-2002 £'000	2000-2001 £'000	1999-2000 £'000	1998-1999 £'000	1997-1998 £'000
MODIFIED HISTORICAL COST BASIS:					
United Kingdom sales	54,867	50,492	43,444	33,714	48,842
Overseas sales	24,805	45,749	52,129	57,643	63,045
	<u>79,672</u>	<u>96,241</u>	<u>95,573</u>	<u>91,357</u>	<u>111,887</u>
Operating profit/(loss)	(18,473)	(493)	345	5,821	13,036
Profit/(loss) for the year	(19,301)	(683)	668	6,289	13,567
Dividend	-	-	500	-	7,000
Retained profit for the year	(19,301)	(683)	168	6,289	6,567
Capital employed at 31 March	69,514	70,483	70,445	66,960	60,640
Operating profit/(loss)/sales	(23.2%)	(0.5%)	0.4%	6.4%	11.7%

Key Ministerial Targets

	2001-2002	2000-2001	1999-2000	Proposed 2002-2003	
Target 1					
To achieve an average rate of return on net assets	Target	11.0%	7.0%	14.6%	11.0%*
	Outturn	(26.4%)	(0.7%)	0.5%	-
Target 2					
UK circulating coin	Target	98.0%	97.0%	96.0%	98.0%
Delivery of accepted orders from UK banks and Post Office		within 11 days	within 11 days	within 11 days	within 11 days
	Outturn	99.8%	98.0%	99.6%	-
Target 3					
UK collector coin					95.0%
Delivery of orders from individual UK customers, measured from receipt of order or published issue date	Target	95.0% within 18 days	95.0% within 25 days	95.0% within 25 days	within 18 days. From Jan 2003
	Outturn	68.0%	88.0%	68.0%	15 days
Target 4					
Medals					
Orders delivered by agreed delivery date	Target	97.0%	97.0%	97.0%	97.0%
	Outturn	96.9%	97.5%	97.2%	-
Target 5					
Quality					
Collector products accepted by individual UK customers	Target	99.7%	99.70%	99.70%	99.70%
	Outturn	99.6%	99.50%	99.65%	-

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



STANDING ON
THE SHOULDERS
OF GIANTS

United Kingdom Circulating Coinage

ISSUES OF UNITED KINGDOM CIRCULATING COINS 2001-2002

Denomination	Face Value (£m)	Number of Pieces (Millions)
£2	49.20	25
£1	81.13	81
50 pence	29.78	60
20 pence	27.50	138
10 pence	12.46	125
5 pence	16.80	336
2 pence	6.93	347
1 penny	7.28	728
Total	231.08	1,840

ESTIMATED NUMBER OF COINS IN CIRCULATION 31 December 2001

Denomination	Face Value (£m)	Number of Pieces (Millions)
£2	371.17	185
£1	1,306.89	1,306
50 pence	316.81	634
20 pence	374.37	1,873
10 pence	145.36	1,454
5 pence	163.25	3,265
2 pence	115.42	5,772
1 penny	94.96	9,495
Total	2,888.23	23,984

Issues

- Demand for United Kingdom coinage did not reach the record-breaking levels of the previous year and was less than anticipated by the banks and Post Office. Nevertheless 1.8 billion pieces were issued.
- Demand for the lowest two denominations was significantly less than last year, with issues accounting for only 58% of the total, instead of 70%. Demand for 5p pieces exceeded even last year's high levels, while issues of £1 and £2 coins remained much the same.
- 99.8% of deliveries to banks and the Post Office were met within the published target of eleven days. This followed the implementation of more effective production planning and stock control systems and the continuing efforts to build a buffer stock of circulating coin. An important contributory factor was the commitment of the members of the Association for Payment Clearing Services to honour their guaranteed minimum order volumes, which aided forward planning. This arrangement will continue in 2002-03 and it has been agreed that the minimum order volumes will be increased.

Number of coins in circulation

- The number of coins in circulation was just short of 24 billion pieces at 31 December 2001, an increase of 6.25% on the previous year.
- Since the summer of 1998 over 185 million £2 pieces have entered circulation, yet despite their increasing familiarity there is evidence that the public continues to hold on to this attractive coin.
- Of the higher denominations the 20p piece is the coin that is most in demand, with the number in circulation now nearing 2 billion.

Commemorative Coins

- In keeping with the trend of producing more coins for commemorative purposes two new coins were issued by banks and post offices during the year.
- A crown piece to mark the centenary of the end of the Victorian era was available from 21 May for purchase at its face value of five pounds. Sales so far are in the region of 0.7 million pieces.
- A commemorative £2 coin was made available from 12 December, exactly 100 years after Guglielmo Marconi sent the first transatlantic radio signal. In total 4.5 million pieces were issued to banks and post offices, although specimens are seldom seen in circulation.
- The Marconi coin received recognition from the International Coin of the Year competition for being the most technically advanced coin in 2001. This was testament to the Mint's skill and a tribute to the design by Robert Evans, a senior member of the Royal Mint Engraving Department.



Main image: A display of the edge lettering on the United Kingdom £2 coin.

Left: The £2 coin issued in 2002 to celebrate the XVII Commonwealth Games was made available in four versions to represent each of the four separate teams from the United Kingdom.



Overseas Circulating Coins and Export Blanks

Opposite: A selection of the coins that the Royal Mint struck for fifty-five overseas customers during the year.

- The Royal Mint again proved to be the premier exporting mint of the world, supplying during the year coins and ready-for-striking blanks to fifty-five countries, mainly in the Americas, Europe, the Middle East, Africa and the Far East.
- The specifications of these coins covered a very wide spectrum in terms of size, shape, metal and edge configuration. Orders were received for copper-, nickel- and brass-plated steel and the Mint is firmly established as a leading supplier of blanks, both plated and homogeneous, to new European markets as well as to more traditional customers.
- Business with the newly developed customer base in Europe has continued throughout the year. Over 2000 tonnes of copper-plated steel, Nordic Gold and cupro-nickel blanks were delivered and approximately sixty million euro coins were struck. In addition, the Mint underwent successful audits by the European Central Bank for the production of both euro coins and blanks, following approval by the European Mint Directors Working Group in February 2001 of the 'Quality Assurance Plan' for producing euro coins.
- As indicated last year, the global market continued to suffer from the economic recession, which directly affected coin demand and from over-capacity following the completion of the enormous euro recoinage programme. It has become apparent that many of the Euroland countries overestimated the volume of euro coins needed and, in some cases, have more than twelve months stock of coin in storage. Several coin and blank producers have reduced the number of shifts worked and initiated redundancy programmes. While there are a number of encouraging signs that the economic situation will improve from the end of 2002, there is little doubt that the minting industry faces a period of over-capacity, and low market prices may lead to an industry rationalisation.
- Royal Mint Services, a joint enterprise with De La Rue, provides technical assistance to overseas Mints and Issuing Authorities. During the year, considerable marketing efforts were made with presentations at conferences and to individual countries. Work was completed in the Philippines and product shipped to several customers, including China. For the third consecutive year the company was able to pay a small dividend.
- Primarily to enhance customer service through better liaison with production, the majority of the Sales Department will be relocating during 2002 to the main site in Llantrisant, where new office accommodation has been prepared. A London presence will, however, be retained in the newly refurbished HM Treasury office in Whitehall, adjoining Parliament Square.





Collector Coin

United Kingdom Coins

- Following the launch of the Marconi commemorative £2 coin, the summer months saw the issue of the precious metal versions of this coin. Sales were rather disappointing, as the theme did not capture the imagination of the general public and interest was difficult to generate.
- From this relatively quiet start to the year, it soon became apparent that Her Majesty The Queen's Golden Jubilee would dominate activity in the Collector Coin business. The official crown piece was unveiled in January and was made available in the 2002 collections and as an individual coin in an attractive presentation folder.

Opposite: The 24-coin international collection to celebrate Her Majesty the Queen's Golden Jubilee proved to be hugely popular.

- The Jubilee also provided the opportunity to launch the most successful coin series the Royal Mint has issued in recent years. This was a limited-edition collection of twenty-four commemorative coins from twelve countries, displaying a gold-sprayed portrait of the Queen on the obverse.
- The Jubilee inspired a new reverse design for the 2002 gold sovereign, the Queen's Golden Jubilee being deemed a fitting occasion to introduce a celebratory design for what remains one of the world's most respected and popular collector coins. The inspiration for the reverse design by Timothy Noad was the famous Victorian shield sovereign, while the obverse retained the now familiar Ian Rank-Broadley portrait of the Queen. The limited-edition proof coin sold out quickly and this was followed by the bullion issue, which exceeded forecast sales from the first promotion. The popularity of the coin extended to the higher priced products in the sovereign range, with the four-coin set being heavily oversubscribed.

Market

- In the light of the unprecedented demand, Coin Club membership increased by 11%.
- The website team has worked hard during the year to improve the Mint's on-line service. Following the launch of the newly designed site in May, the successful implementation of the new in-house server enabled customers to track their orders. Internet sales increased by no less than 80% on last year.
- In keeping with business strategy and the utilisation of the extension in the Mint's manufacturing remit, the range of non-coin gifts and collectibles was extended and developed. These proved very popular with new and existing customers.



Customer Service

- Several initiatives directed at improving customer service started and expanded during the year. In the short term, however, with a heavy programme of IT development, together with a refurbishment of the collector coin despatch area, the level of service suffered. Only 68% of customers' orders were delivered within eighteen days and, with the target time set to reduce again next year, improvements in this area are a priority.
- The system and structural developments taking place will prepare the platform for both increased sales and more efficient processing of orders in the future. Among the developments are the following:

New Order Processing System

This provides the facility to allow orders to be taken without payment, customers being invoiced with the despatch of the order. An annual ordering service enables customers to have their regular yearly purchases sent automatically and the system also provides improved debtor control.

Enterprise Resource Planning

Faster throughputs and lead times will result in improved capacity loading, better stock control, more satisfactory forecasting of component requirements to both internal and external suppliers, delivery advice to customers and swifter reaction to demand.

Development Partnerships and Products

- The New Products Development Strategy became a reality during the year with the development and promotion of a product range of non coin-related gifts and collectibles. In total over 120 new products were developed in-house or in collaboration with external suppliers, among them Royal Worcester, Wedgwood and Parker Pens. The partnership with the British Philatelic Bureau generated new products such as the Golden Jubilee Philatelic Ingot cover, where a gold-plated ingot of a 1952 stamp was allied with the Royal Mail's official Golden Jubilee stamps.
- Particularly successful has been the introduction of a range of gold and silver jewellery. Limited-edition pendants, earrings, bracelets and rings have proved very popular and have attracted new customers through media advertising.
- There continues to be collaboration with coin dealers as opportunities are recognised to widen the product portfolio by offering older coins from the secondary market. Building on previously successful promotions, this year saw the retail of the Half-Sovereign Portrait Collection, containing seven types of circulating half-sovereigns since the reign of Queen Victoria, and a spectacular gold set of four Golden Jubilee coins of 1887 and four Golden Jubilee coins of 2002.

Opposite: A model of the *Golden Hind* by silversmith Michael Softley is one of the more spectacular of the new range of products marketed by the Royal Mint.

Below: The special reverse design for the 2002 gold sovereign was a re-working by Timothy Noad of the famous Victorian shield sovereign.







Medals



Above: Gold, silver and bronze winners medals for the XVII Commonwealth Games, hosted by the city of Manchester.

Opposite: Ian Rank-Broadley, FRBS, FSNAD created the portrait of the Queen for the official Golden Jubilee medal, while Timothy Noad designed the reverse.

Below: Medals commissioned to celebrate the Queen's Golden Jubilee, including customised designs as well as the officially approved portraits by James Butler and Michael Noakes.

Official Medals

- An official Golden Jubilee medal was instituted for selected Armed Forces and Emergency Services personnel. In the latter part of the year the Royal Mint was awarded the manufacture of the medal for both the Ministry of Defence and the Department of Culture, Media and Sports. The considerable size of the two orders, totalling 360,000 medals, saw unprecedented levels of activity in the Medal Department. To achieve the demanding production and delivery schedule, staff from other parts of the business were redeployed and retrained in the various skills necessary. In addition, the working arrangements were changed from a single-shift pattern to a three-shift pattern to optimise output of the eighty-one medallists employed. All these measures ensured that customer service requirements and quality standards were met and, so far, all delivery milestones achieved.
- The design of the medal was overseen by the Royal Mint Advisory Committee. The obverse shows a crowned portrait of the Queen by Ian Rank-Broadley, FRBS, FSNAD, while the reverse shows an arrangement by Timothy Noad of the shield of the Royal Arms and the dates 1952 and 2002.
- With such a workload, it was important to maintain the relationship with the Army Medal Office at Droitwich and to meet their regular requirements. This was achieved throughout the year, the various orders including the issue of the newly introduced Royal Fleet Auxiliary Service Medal and the Northern Ireland Prison Service Medal.

Commemorative Jubilee Medal

- A medal to celebrate the Golden Jubilee was offered to businesses and community groups and proved extremely successful, with nearly 150,000 medals having so far been purchased.
- The medal has portraits of the Queen on either side to reflect both her formal and informal role. The portraits were chosen by the Royal Mint Advisory Committee and are the work of James Butler and Michael Noakes.
- Customised options were available and the total number of medals included over 85,000, which combined one or other of the portraits with special designs required by customers. These designs, of which there have been more than 150, were redrawn by the Engraving Department and represented a heavy burden of work to be completed in time for the main Jubilee celebrations.

Commercial Medals

- During the summer of 2002, the city of Manchester hosted the XVII Commonwealth Games, for which the Medal Department has produced the gold, silver and bronze medals for the successful athletes.
- The 2002 Royal Mint Calendar medal continued the William Shakespeare theme, loosely based on the famous description of the seven ages of man. The medal, designed by senior Royal Mint engraver Robert Elderton, represents childhood and illustrates a young child holding a parent's hand.
- The close relationship with the International Rugby Board saw the manufacture of medals for the World Cup Competitions for Women and Men's Under 19s and Under 21s and also the World Cup Sevens Final, 2002.



The New Heads—and Tails, too—

London Staff Reporter
 THE Royal Mint will start making the new Elizabethan coins in January, and they will begin to reach the public early in May. Details released by the Treasury to-day show that besides the new head on all five coins, from halfpenny to five shillings, there will be a farthing, three halfpennies, three shillings and sixpence. The new coins will be made of copper, silver and gold. The farthing will be made of copper, the halfpenny of copper, the sixpence of silver, the shilling of silver, and the two new crowns of gold. The new coins will be made at the Royal Mint, London. The farthing will be made of copper, the halfpenny of copper, the sixpence of silver, the shilling of silver, and the two new crowns of gold. The new coins will be made at the Royal Mint, London.

on COINS



of some of is shown. K. florin and 1953.

fact that there are five less, four shillings and sixpence; their arrangement away the result of the way pattern worked out under registration. Orders should be placed with the banks—before the Royal Mint—before December 31. The Coronation crown shilling looks very different from the old shilling, and the new shillings are distinguished from one another by the two Royal crests, the Scottish having a lion rampant and the English three lions passant. These have been replaced by the two shields from the quarterings of the Royal Arms, and in general outline they are somewhat alike. The expense, which at present has the Royal Cypher on its reverse side, will go back to the garland motif of King George V, but instead of the

The Scottish shilling and the U.K. threepenny piece. chance will occur which lifts the whole design out of the commonplace. In the Dominions the same uncrowned effigy will be used but inscribed Colonial territories. At home, nine coins will be struck through the

QUEEN APPROVES HER NEW COINS

Uncrowned Effigy

"Star" Reporter



P. SHIRES, road, Manx



The jubilee crown... Collected £5... The new coins will be made at the Royal Mint, London. The farthing will be made of copper, the halfpenny of copper, the sixpence of silver, the shilling of silver, and the two new crowns of gold. The new coins will be made at the Royal Mint, London.

Coinage of the new re

'Graceful profile' of the Queen

Sets on sale through banks in May

71-YEAR old artist, Mary Gill, has designed the new Elizabethan coins. A graceful profile of the Queen will be on the coins, for the first time, and the new design will be on the reverse side. The new coins will be made at the Royal Mint, London. The farthing will be made of copper, the halfpenny of copper, the sixpence of silver, the shilling of silver, and the two new crowns of gold. The new coins will be made at the Royal Mint, London.

the various coins to be put into circulation before the end of the year. The new coins will be made at the Royal Mint, London. The farthing will be made of copper, the halfpenny of copper, the sixpence of silver, the shilling of silver, and the two new crowns of gold. The new coins will be made at the Royal Mint, London.



Designs for new coinage out to-day

GRACEFUL PROFILE OF THE QUEEN

Deliberate break with convention

"ECHO" STAFF REPORTER

DESIGNS for the new coinage were revealed for the first time in London today. The new coins will be made at the Royal Mint, London. The farthing will be made of copper, the halfpenny of copper, the sixpence of silver, the shilling of silver, and the two new crowns of gold. The new coins will be made at the Royal Mint, London.

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Reverse of the new two-shilling and three-penny pieces.

The new design will be on the reverse side. The new coins will be made at the Royal Mint, London. The farthing will be made of copper, the halfpenny of copper, the sixpence of silver, the shilling of silver, and the two new crowns of gold. The new coins will be made at the Royal Mint, London.



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Every... late... the Ro... minter... a 2p... the C... on th...

At... man... coin... the new

Coin unveiled

A NEW £5 coin commemorating the Queen's Golden Jubilee this year was today being unveiled to the Royal Mint.

The Jubilee crown sculptor Ian Rankin has inscribed "ANNO DOMINI MCMCLXXVI" on the reverse of the coin. The inscription "ANNO DOMINI MCMCLXXVI" is Latin for "The year of our Lord one thousand nine hundred and seventy-six".

The Queen's portrait on the coin will be the first in British history to be struck in keeping with the tradition of the reverse of the Queen's portrait on the coin. The Queen's portrait on the coin will be the first in British history to be struck in keeping with the tradition of the reverse of the Queen's portrait on the coin.



Factors get first sight of the crown to mark Golden Jubilee



The Queen first visited the Royal Mint as an 11-year-old princess, accompanied by her sister Princess Margaret and her grandmother Queen Mary.

Her next visit to the Royal Mint, as Queen, came in 1966 as preparations were beginning for the introduction of decimal coinage and the transfer of the Mint from its historic site at Tower Hill.

In December 1968 the Queen, accompanied by the Duke of Edinburgh and the Prince of Wales, opened the new Royal Mint in Llantrisant.

The most recent royal visit was in 1997, when the Queen and the Duke of Edinburgh celebrated their Golden Wedding anniversary by striking the first Golden Wedding commemorative crowns in gold.

More than 45,000,000,000 coins have been struck for the United Kingdom bearing the Queen's portrait, a record number for any British monarch.

The Queen's portrait as reigning monarch appears on every coin in circulation, something that has probably not happened since at least medieval times.

Golden Jubilee £5 crown revealed



Golden Jubilee £5 crown revealed

By Alan Hamilton

COIN collectors had their first

portrayed the Queen's portrait on the reverse of the coin. The inscription "ANNO DOMINI MCMCLXXVI" is Latin for "The year of our Lord one thousand nine hundred and seventy-six".

entation pack, for which buyers have to pay an extra £4.95 above the coin's face value. The normal version, which is made of copper-nickel, will be available for their purchase.

events are generally produced in such huge quantities that its face value is devalued. The normal version, which is made of copper-nickel, will be available for their purchase.



Golden Jubilee £5: it will be in general circulation from May

£5 Golden Jubilee coin is unveiled by Royal Mint

A NEW £5 coin commemorating the Queen's Golden Jubilee this year was unveiled yesterday to collectors by the Royal Mint.

Jubilee's first mon-coinage series 1, and need- inscribed on Praesidianslates people is

BUCKINGHAM is trawling for people born on 21 May 1952 — the day the Queen acceded to the throne — to invite them to a party to celebrate the Golden Jubilee (Alan Hamilton writes).

garden parties on July 9 and the Palace of Holyrood in Edinburgh on May 25. People born on that day who wish to attend should contact the Lord-Lieutenant of their county at the county council offices with a copy of their birth certificate.



People

Employee Relations

- Reducing the operating week from seven to five days for the Circulating Coin business while increasing the resources dedicated to the Collector Coin business was the major employee relations task during 2001-02.
- The progressive switch of Circulating Coin departments from seven-day to five-day operation was completed by the end of 2001.

Employment and Attendance

- The prevailing market conditions were also reflected in the reduction in numbers of full-time equivalent employees from 1088 employed as at 1 April 2001 to 1000 as at 31 March 2002.
- Casual employees, particularly for the Collector Coin business, were again a necessary element of the flexibility required to address customer needs and varied between a maximum of sixty-one people at the start of the year and a minimum of seventeen at the end of the year.
- Attendance levels did not improve in 2001-02, reflecting the impact on morale and earnings of the reduction to five-day working as well as the age profile of the Mint's workforce.
- The Mint suffered its first fatality for nine years with the tragic death of Mr John Wynne in June 2001, after twenty-one years of loyal service. Our thoughts and condolences continue to be with Mr Wynne's family and colleagues.

The Royal Mint Executive Board: I to r Graham Davies, *Director of Finance*, Mick Slater, *Director of Circulating Coin*, Alan Wallace, *Director of Collector Coin*, Gerald Sheehan, *Chief Executive*, Keith Cottrell, *Director of Sales*, Allan Pearce, *Director of Human Resources and Corporate Affairs* and Geoff Payne, *Director of Engineering Services*.



External Recruitment Activity 2001-02

Unified Broad Bands	Previous Non-Industrial Grade	Previous Industrial Grade	Successful (includes reserves)		Ethnicity	Disability
			Male	Female		
1			1	-	British	Nil
2	C/D/E		1	-	British	Nil
4	G H		-	2	British	Nil
5	J	Craft	1	-	British	Nil
5/6	K	Mint skilled	-	4	British	Nil
6	L	Semi skilled	-	-	British	Nil
Totals			3	6	British	Nil

Recruitment and Retention

- The run-down of numbers employed, together with reduced shift-work earnings, had an impact on the Mint's ability to attract and retain high calibre staff.
- Despite these tensions, 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.

Development and Training

- Milestones for 2001-02 included a number of 'firsts' for the Royal Mint.

A significant improvement in the extent and quality of training evaluation included knowledge and behavioural competency assessments.

Feedback and coaching at senior levels was introduced to support management development and the ongoing culture change.

The management of contractors working on site, using a CD-based induction programme, was developed to enhance the Mint's safety performance.

Recruited	
Male	Female
1	-
1	-
-	2
-	-
1	-
-	4
-	-
3	6

Internal customer-supplier agreements were introduced to improve customer service and support effective teamwork.

Extensive training in relation to new procedures was undertaken to meet the Control of Major Accident Hazards (COMAH) Regulations 1999.

A structured programme of training was introduced relating to new Safe Working Procedures, leading to the achievement of National Vocational Qualifications in Performing Manufacturing Operations.

- Adult apprenticeships, supported by Education and Learning Wales funding, were offered for the first time.
- A structured programme of development was established for Team Leaders, accredited by the NEBS Management Certificate in Supervision and Management, for which two Royal Mint Team Leaders were the first recipients in Wales.
- Overall, the average number of training days per employee (including on-the-job training) was 12.5 compared to 9.7 for last year, again exceeding the Mint's commitment to a minimum of five days per year.

- The team-based TPM continuous improvement programme is being rolled out to cover all parts of the production operations. This has enabled employees at all levels to contribute to the successful completion of specific waste reduction and process improvement objectives.

Communication and Involvement

- Despite the difficult circumstances of reduced numbers employed and reduced shifts and shift earnings, the Mint maintained its commitment to direct communication with employees and again had the support of local representatives and their full-time officers in many of these programmes. All three unions were again joint signatories to the Mint's application to the Dti 'Partnership at Work Fund'.
- Regular monthly communications with employees – through team briefing and feedback together with the staff newsletter *Mint Condition* – were maintained and supplemented by employee briefings on business plans when appropriate.



Above: Gareth Rutter receiving his certificate as runner-up for the Apprentice of the Year 2001 award, sponsored by the Engineering Employers Federation.

Left: The Mint team which won second place at the national TPM Seven Conference for their project on improvements to the Grabener coining press.

Royal Mint Advisory Committee, 2001-02

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.

Meetings

The Committee met three times during the year. On 17 May 2001 the first of these meetings was held at the Cabinet Office, the other two meetings being held at Goldsmiths' Hall in the City of London on 27 November 2001 and 27 February 2002.

By the time of the meeting in May work on the new Great Seal of the Realm was at an advanced stage, in readiness for its first use at a meeting of the Privy Council on 18 July 2001, and as events transpired Proclamations for new commemorative coins were amongst the

first to be passed under the new Great Seal on that day. James Butler's

unadorned but commanding obverse is combined with his invigorating rendering of the Royal Arms for the reverse, assuring the new Seal's place as a dignified addition to the thousand-year history of the Great Seal. The final chapter in the story was a reception held in the River Room of the Palace of Westminster hosted by Lord Irvine, the Lord Chancellor. In the presence of James Butler and several members of the Committee, Lord Irvine displayed both the new Seal and the ceremonially defaced old Seal and toasted what was without doubt a happy outcome to the Committee's labours.

The Golden Jubilee necessarily dominated the Committee's work in the early part of the year. For the commemorative crown piece the Committee chose the work of Ian Rank-Broadley, FRBS, FSNAD, whose equestrian portrait of the Queen and double ring of inscription captured the Committee's attention from the very start. The Mint's Golden Jubilee commemorative medal saw James Butler again being successful with a formally styled obverse, which contrasted quite markedly, and deliberately so, with the walkabout scene depicted on the reverse by the portrait artist Michael Noakes.

The designs for the official Jubilee award medal, to be given to members of the armed forces and emergency services, had also to be resolved. Not for the first time in recent years it

Stages in the design and manufacture of the new Great Seal of the Realm. The commission fell to the sculptor and Royal Academician James Butler, who is pictured on the left.



was a drawing by the herald painter Timothy Noad that emerged as the winning reverse. His Royal Arms design, with the simple addition of the dates 1952 and 2002, is accompanied on the obverse by a new crowned portrait of the Queen by Ian Rank-Broadley, adapted from the effigy he prepared for the reverse of the Golden Jubilee crown. For Timothy Noad the favour with which the Committee has recently regarded his work extended to his being asked to provide an interpretation of the shield of the Royal Arms, based on the design of Victorian sovereigns, to be used in 2002 as a new design for the reverse of the gold sovereign. The resulting replacement of the familiar St George design for one year only provided a further way in which the special nature of the Jubilee year was reflected on the British coinage.

The Committee also examined and recommended designs for the Northern Ireland Prison Service medal, the Commonwealth Games two-pound coin and a new reverse for the Britannia bullion coin series. Designs for commemorative coins for 2003 were selected by the Committee and will be unveiled in due course. Operating by way of limited competition, the Committee has been keen to find artists who have not previously been involved in coin and medal design, and the 2003 commemorative coins will include designs by a distinguished artist entirely new to coin design.

Members

With the retirement of Roger Holmes as Deputy Master the Committee lost its Deputy Chairman, a position that was filled by the new Chief Executive Gerald Sheehan, who attended his first meeting in February. There was one other newcomer to the Committee during the year, the Collections Secretary and Senior Curator at the Royal Academy MaryAnne Stevens, who replaced the retiring member, Philomena Davidson Davis. Mark Jones also completed his seven-year term of membership but following his appointment as Director of the Victoria & Albert Museum in the spring of 2001 his membership of the Committee was extended for a further three years.

Membership of the Committee

(with dates of appointment)

Professor Sir Christopher Frayling
(Chairman) *January 2001*

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

Mr John Porteous, OBE *July 1968*

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

Mr Mark Jones *March 1994,*
re-appointed April 2001

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*

Miss MaryAnne Stevens *April 2001*



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 2001 to 31 March 2006 should be a return of at least 11% within the period. 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.

The relevant Accounts Direction issued by HM Treasury is at Annex A.

Financial Review

Sales in the year of £79.7 million include £24.8 million (31%) to overseas customers.

The modified historical cost operating loss for the year before interest and exceptional items was £6.5 million.

The 2001-02 accounts include an exceptional item in respect of £12 million costs incurred as an integral part of the restructuring exercise. These costs relate to redundancy, early retirement payments and restructuring costs which will fall due primarily in 2002-03 although certain amounts will be paid in subsequent years.

A loss of £19.301 million was transferred to reserves and no dividend was due to the Consolidated Fund.

Capital expenditure of £2.5 million was incurred in the year.

Collector Coin

Due to the Treasury requirement for new trading fund 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. In 2001-02 these operations are to be reported in a separate Resource Account under Treasury direction, which will be laid before Parliament in due course.

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.

In addition, the Royal Mint faces liquidity risks following recent trading deficits. This risk

has been addressed through the negotiation of appropriate facilities with HM Treasury in the light of current trading forecasts.

Other than precious metal loans, referred to below, the Royal Mint's financial liabilities carry fixed or nil rates of interest.

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 2002. 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. 91% 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.

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 2002 was 1000.

Employee communications are an integral element of the Total Productive Manufacturing programme and include the issue of a monthly newsletter and regular feedback meetings involving all employees. A copy of the *Annual Report* is available to all employees on request.

During the year there was a theft of banknotes totalling £25,680. An investigation into the theft, undertaken by the Mint and MoD Police, has resulted in a number of improvements to physical security arrangements and working practices.

Gerald Sheehan

Accounting Officer
23 September 2002

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 Internal Control

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 system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process that identifies the principal risks to the achievement of the Royal Mint's policies, aims and objectives, evaluates the nature and extent of those risks and manages them efficiently, effectively and economically. During 2002-03 the Royal Mint will implement and fully embed the risk management and review processes that have been established in accordance with Treasury guidance. I expect to have the procedures in place by March 2003.

The Royal Mint has had a risk management framework and risk register in place for a number of years. During 2001-02, the framework and register have been reviewed and are in the process of being updated to reflect the guidance published by HM Treasury in January 2001: Management of Risk - A Strategic Overview. In particular, a risk management workshop was held in September 2001 which was attended by all of the directors and chaired by my predecessor. The workshop focused on the identification of the key risks which could impact the achievement of the Royal Mint's strategic objectives and the control strategy for each of the significant risks.

We are in the process of embedding risk management into the ongoing planning and strategy process and, in addition, we are implementing a process whereby the executive directors, supported by representatives of relevant operational departments, review and update the risk assessment for different areas within the Royal Mint on a regular basis. As a result of these initiatives, I expect risk management to be incorporated more fully into the corporate planning and decision making

processes of the Royal Mint. We will also continue to undertake risk awareness training and develop key performance and risk indicators where appropriate.

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

The Royal Mint operates an internal audit service to standards defined in the Government Internal Audit Manual. Elements of the internal audit service are undertaken respectively by the Royal Mint management and by PricewaterhouseCoopers who, in particular, undertake a review on an annual basis of the Royal Mint's system of internal financial control. The results of their audit, including recommendations for improvement, are reported to the Finance Director and myself and presented to the Audit Committee. They also provide an independent opinion on the adequacy of the Royal Mint's system of internal control.

My review of the effectiveness of the system of internal control is informed by the executive managers who have responsibility for the development and maintenance of the internal control framework, the work of the internal auditors and comments made by the external auditors in their management letter and other reports.

During the year a failure of internal control resulted in the loss of banknotes totalling £25,680. As a result of the investigations into the theft undertaken by the Mint and MoD Police a number of improvements to physical security and working practices have been made.

As a result of the poor trading results in recent years, management has put in place a range of measures, the most significant being the restructuring programme.

Gerald Sheehan

Accounting Officer

23 September 2002

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

I certify that I have audited the financial statements on pages 27 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 31.

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 and 25 reflects the Royal Mint's compliance with Treasury's guidance 'Corporate governance: 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.

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 2002 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 at pages 37 to 44.

John Bourn
Comptroller and Auditor General
14 October 2002

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

Operating Account for the year ended 31 March 2002

	Notes	£'000	£'000	2001-2002 £'000	2000-2001 £'000
TURNOVER	2			79,672	96,241
Change in stocks of finished goods and work in progress			2,156		3,776
Own work capitalised			8		134
Other operating income			750		412
Raw materials and consumables			(36,986)		(46,014)
Other external charges			(5,186)		(6,130)
Staff costs					
operating staff costs	4	(28,255)			(30,594)
exceptional staff costs	5	(12,000)			-
			(40,255)		
Depreciation and other amounts written off tangible fixed assets	7		(5,028)		(4,798)
Other operating charges			(13,604)		(13,520)
				(98,145)	(96,734)
OPERATING LOSS	3				
operating loss before exceptional costs			(6,473)		(493)
exceptional costs			(12,000)		-
				(18,473)	(493)
INTEREST RECEIVABLE AND SIMILAR INCOME				139	275
INTEREST PAYABLE AND SIMILAR CHARGES	6			(967)	(465)
LOSS FOR THE YEAR				(19,301)	(683)
DIVIDEND PAYABLE TO THE CONSOLIDATED FUND				-	-
RETAINED LOSS FOR THE YEAR				(19,301)	(683)

No activities have been discontinued during the year.

The notes on pages 31 to 36 form part of the modified historical cost accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2001-2002 £'000	2000-2001 £'000
Loss for the year	(19,301)	(683)
Unrealised (deficit)/surplus on revaluation of property	(3,077)	796
Unrealised (deficit)/surplus on revaluation of plant and machinery	(433)	380
Unrealised surplus/(deficit) on revaluation of uncommitted metal	63	(371)
Total recognised gains and losses relating to the year	<u>(22,748)</u>	<u>122</u>

HISTORICAL COST PROFITS AND LOSSES

	2001-2002 £'000	2000-2001 £'000
Reported loss for the year	(19,301)	(683)
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	208	223
Historical cost loss for the year	<u>(19,093)</u>	<u>(460)</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 2001	7,000	6,673	56,579	70,252
Movements in the year:				
Revaluations				
Fixed Assets	-	(3,510)	-	(3,510)
Stocks	-	63	-	63
Capital repayment	(1,500)	-	-	(1,500)
Loss for the year	-	-	(19,301)	(19,301)
Reclassification of distributable reserves	-	(208)	208	-
As at 31 March 2002	<u>5,500</u>	<u>3,018</u>	<u>37,486</u>	<u>46,004</u>

The notes on pages 31 to 36 form part of the modified historical cost accounts.

Balance Sheet as at 31 March 2002

	Notes	£'000	2002 £'000	2001 £'000
FIXED ASSETS				
Tangible Assets	7		42,978	49,053
CURRENT ASSETS				
Stocks		49,060		49,114
Debtors		8,794		8,059
Cash at bank and in hand		4,379		3,508
		<u>62,233</u>		<u>60,681</u>
CREDITORS				
Amounts falling due within one year		(35,697)		(39,251)
NET CURRENT ASSETS	8		<u>26,536</u>	<u>21,430</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u><u>69,514</u></u>	<u><u>70,483</u></u>
FINANCED BY:				
CREDITORS				
Amounts falling due after more than one year	9		11,273	-
PROVISION FOR LIABILITIES & CHARGES	10		12,237	231
CAPITAL AND RESERVES				
Public Dividend Capital		5,500		7,000
Revaluation Reserve		3,018		6,673
Profit and Loss Account		<u>37,486</u>		<u>56,579</u>
			<u>46,004</u>	<u>70,252</u>
			<u><u>69,514</u></u>	<u><u>70,483</u></u>

The notes on pages 31 to 36 form part of the modified historical cost accounts.

Gerald Sheehan
Accounting Officer
23 September 2002

Cash Flow Statement for the year ended 31 March 2002

	Notes	2001-2002 £'000	2000-2001 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(a)	(3,843)	(315)
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		154	234
Interest paid		(1,009)	(353)
		(855)	(119)
CAPITAL EXPENDITURE		(2,730)	(3,549)
EQUITY DIVIDENDS PAID		-	(500)
CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES		(7,428)	(4,483)
MANAGEMENT OF LIQUID RESOURCES			
Movement in National Loans Fund loan		(2,000)	3,000
FINANCING			
Buyback of Public Dividend Capital		(1,500)	-
Long Term Loan received		12,000	-
Long Term Loan repaid in year		(215)	-
INCREASE/(DECREASE) IN CASH IN THE YEAR	(b)	857	(1,483)
(a) RECONCILIATION OF OPERATING LOSS WITH THE NET CASH OUTFLOW FROM OPERATING ACTIVITIES		2001-2002 £'000	2000-2001 £'000
Operating loss		(18,473)	(493)
Depreciation charge		5,028	4,798
Movements in			
Stocks		118	(3,667)
Debtors		(750)	1,540
Creditors (excluding dividend)		10,248	(2,579)
Currency Translation Difference		(14)	86
		(3,843)	(315)
(b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS		2001-2002 £'000	2000-2001 £'000
Increase/(Decrease) in cash in the year		857	(1,483)
Currency Translation Difference		14	(86)
Cash inflow from increase in borrowings		(9,785)	(3,000)
Movement in net funds		(8,914)	(4,569)
Net (debt)/funds at 1 April		(1,492)	3,077
Net debt at 31 March		(10,406)	(1,492)
(c) ANALYSIS OF NET FUNDS		2001-2002 £'000	2000-2001 £'000
Cash at Bank and in hand		4,379	3,508
Debt due within one year		(3,512)	(5,000)
Debt due after one year		(11,273)	-
		(10,406)	(1,492)

The notes on pages 31 to 36 form part of the modified historical cost accounts.

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. 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 reach depreciated historic 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:

	%
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 2002. 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 claims as and when they arise.

(i) Pension Scheme

Employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is 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 PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. Further information is given in note 11.

Note 2

TURNOVER

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

	2001-2002 £'000	2000-2001 £'000
United Kingdom	54,867	50,492
Overseas	24,805	45,749
	79,672	96,241

Note 3

OPERATING LOSS

Operating loss is stated after charging:

	2001-2002 £'000	2000-2001 £'000
Sub-contracted work and semi-processed material	5,186	6,130
External Audit fees	65	43
Hire of plant and machinery	131	138
Travel and subsistence	490	503

Note 4

REMUNERATION AND EMPLOYMENT

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

	Remuneration including performance pay	Real increase in pension @ 60	Total accrued pension @ 60
Executive Directors	Age	£'000	£'000
Roger Holmes (contract expired 31.12.01)	53	55-60	0-2.5
Gerald Sheehan (appointed 03.12.01)			
Chief Executive	52	40-45	0-2.5
Keith R Cottrell			
Director of Sales	53	60-65	0-2.5
Allan E Pearce			
Director of Human Resources and Corporate Affairs	52	60-65	0-2.5
Graham J Davies			
Director of Finance	56	55-60	0-2.5
Alan Wallace			
Director of Collector Coin	58	60-65	0-2.5
Geoff Payne			
Director of Engineering Services	58	50-55	0-2.5
Mick Slater			
Director of Circulating Coin Production	51	50-55	0-2.5

Geoff Payne retired on 30 June 2002.

Remuneration includes salary, performance pay and all other benefits.

In addition Mr Roger Holmes was 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 2002 were £16,733.

Non-Executive Directors	Age	Fees (£'000)
Lyndon Haddon	60	5-10
David Stark	62	5-10
Jan Smith	54	5-10
David Trapnell	57	5-10
Lucy Woods	43	5-10

Note 4 (continued)

TOTAL STAFF COSTS	2001-2002 £'000	2000-2001 £'000
Wages and salaries	23,813	25,846
Social security costs	1,644	1,932
Other pension costs	2,798	2,816
	<u>28,255</u>	<u>30,594</u>
AVERAGE NUMBER EMPLOYED	2001-2002	2000-2001
Production	829	907
Sales and Marketing	82	81
Administration	140	148
	<u>1,051</u>	<u>1,136</u>

The total number of persons employed at 31 March 2002 was 1,000.

Note 5

EXCEPTIONAL ITEM	2001-2002 £'000	2000-2001 £'000
Provision for restructuring costs (see Note 10)	12,000	-

Note 6

INTEREST PAYABLE	2001-2002 £'000	2000-2001 £'000
On loans repayable within five years	967	465

Note 7

TANGIBLE FIXED ASSETS	Freehold land and Buildings £'000	Plant and Machinery £'000	Total £'000
Valuation			
At 1 April 2001	16,465	70,992	87,457
Additions	292	2,171	2,463
Disposals	(122)	(3,329)	(3,451)
Revaluation	465	226	691
Impairment	(3,860)	(540)	(4,400)
At 31 March 2002	<u>13,240</u>	<u>69,520</u>	<u>82,760</u>
Depreciation:			
At 1 April 2001	-	38,404	38,404
Charge for year	440	4,588	5,028
Disposals	(122)	(3,329)	(3,451)
Revaluation	(318)	119	(199)
At 31 March 2002	<u>-</u>	<u>39,782</u>	<u>39,782</u>
Net book value at 31 March 2002	<u>13,240</u>	<u>29,738</u>	<u>42,978</u>
Net book value at 1 April 2001	<u>16,465</u>	<u>32,588</u>	<u>49,053</u>

Land and buildings are stated at open market current use valuation as at 31 March 2002 or depreciated replacement cost as at that date in the case of buildings of a specialist nature. This valuation totalling £17.1 million was provided by Chesterton International Property Consultants plc in accordance with the guidelines issued by the Royal Institution of Chartered Surveyors.

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

Note 7 (continued)

In accordance with FRS11, Impairment of Fixed Assets and Goodwill, the Royal Mint has carried out an asset impairment review. The review compared the carrying value of fixed assets with expected future net cash flows generated by the Royal Mint's trading activities. The cash flows were discounted at a weighted average rate of 9.1%. As a result of the review fixed assets have been written down by £4.4 million as at 31 March 2002 to their estimated value in use.

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 2002			
Cost	15,975	59,146	75,121
Accumulated Depreciation	(4,354)	(29,634)	(33,988)
Net book value at 31 March 2002	<u>11,621</u>	<u>29,512</u>	<u>41,133</u>
Net book value at 1 April 2001	<u>11,769</u>	<u>31,800</u>	<u>43,569</u>

Note 8

NET CURRENT ASSETS	£'000	2002 £'000	2001 £'000
Current assets			
Stocks			
Metal stocks	21,708		24,186
Work in progress (excluding metal)	4,466		6,788
Stores and packing materials	2,000		2,373
Finished goods	<u>20,886</u>		<u>15,767</u>
		49,060	49,114
Debtors			
Trade debtors	8,155		6,912
Other debtors	232		658
Prepayments and accrued income	<u>407</u>		<u>489</u>
		8,794	8,059
Cash			
Cash at bank	4,378		3,507
Cash in hand	<u>1</u>		<u>1</u>
		4,379	3,508
Current Assets		<u>62,233</u>	<u>60,681</u>
Creditors: amounts falling due within one year			
Short-term fixed rate NLF loans	(3,000)		(5,000)
Long-term NLF loans (see Note 9)	(512)		-
Trade creditors	(21,494)		(26,040)
Other creditors	(553)		(535)
Payments received on account	(8,520)		(6,154)
Taxation and social security	(660)		(763)
Accruals and deferred income	<u>(958)</u>		<u>(759)</u>
		(35,697)	(39,251)
NET CURRENT ASSETS		<u>26,536</u>	<u>21,430</u>

Metal stocks of £21.708 million (2001: £24.186 million) include a base stock of copper and nickel with a net realisable value of £2.916 million at 31 March 2002 (2001: £2.853 million) and £16.483 million (2001: £16.946 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 9	2002	2001
CREDITORS: amounts falling due after one year	£'000	£'000
Loans repayable:		
Between one and two years	546	-
Between two and five years	1,856	-
After five years	8,871	-
	<u>11,273</u>	<u>-</u>

The above comprise two 15 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 8 above)	
			£'000	£'000
10,500	6.347	20th September 2001	450	9,902
1,500	6.305	2nd October 2001	62	1,371
			<u>512</u>	<u>11,273</u>

The weighted average interest rate on these loans is 6.342% p.a.

Note 10

PROVISION FOR LIABILITIES AND CHARGES

- a) The Trading Fund is liable to pay the pensions of employees who have retired early until they attain normal pensionable age. As in previous years a provision has been made for the pensions due to employees who had retired prior to 31st March 2002.
- b) In addition to this a further provision has been made for restructuring costs. These comprise redundancy and early retirement costs although the breakdown between these cannot yet be established.

	Early Retirement	Restructuring	Total
	Provision	Provision	Provision
	£'000	£'000	£'000
As at April 1 2001	231	-	231
Utilised	(161)	-	(161)
Provided in the year	167	12,000	12,167
As at March 31 2002	<u>237</u>	<u>12,000</u>	<u>12,237</u>

In respect of the restructuring provision, funding for these costs will be met as necessary from loan facilities currently available from HM Treasury.

Note 11

PENSION COSTS

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Royal Mint is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out on 31 March 1999. Details can be found in the resource account of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2001-02 employers' contributions of £2.798 million were payable to the PCSPS (2000-01 £2.816 million) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revaluation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Note 12	2002	2001
CAPITAL COMMITMENTS	£'000	£'000
Commitments in respect of contracts	<u>361</u>	<u>628</u>

Note 13

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 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 key management staff or other related parties has undertaken any transactions with the Royal Mint.

Note 14

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
- 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 2002 amounted to £1.8 million (2001: £13.6 million). If these contracts were translated at the year-end rate, there would have been a gain of £0.02 million (2001: loss of £1.4 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 2003.

Note 15

POST BALANCE SHEET EVENT

In June 2002, the Birmingham Mint Limited issued a claim in the High Court against HM 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 which will be contested vigorously.

Annex A

Accounts direction given by the Treasury in accordance with Section 4(6)(A) of the Government Trading Funds Act 1973

1. This direction applies to the Royal Mint.
2. The Royal Mint shall prepare accounts for the year ended 31 March 2002 in compliance with the accounting principles and disclosure requirements of the edition of *Trading Funds - Accounts Guidance* issued by HM Treasury ('the Guidance') which is in force for 2001-02.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, total recognised gains and losses, and cash flows of the Royal Mint, and of the state of affairs as at 31 March 2002.
4. Compliance with the requirements of the Guidance will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the Guidance is inconsistent with the requirement to give a true and fair view of the requirements of the Guidance should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement would be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the Guidance. Any material departure from the Guidance should be discussed in the first instance with the Treasury.

David Loweth

Head of the Central Accountancy Team, Her Majesty's Treasury

18 February 2002

Report by the Comptroller and Auditor General

Introduction

1. The Royal Mint is an executive agency and has operated as a Trading Fund since 1 April 1975, in accordance with the Royal Mint Trading Fund Order 1975 (SI 501/1975). Her Majesty's Treasury makes payments to the Mint under a five-year contract for the manufacture and distribution to banks of UK circulating coins, and the Mint also competes with its overseas counterparts and private sector commercial organisations in the world-wide markets for collector coins and medals etc.
2. As a Trading Fund, the Royal Mint operates on commercial lines and is required under Section 4(1) of the Government Trading Funds Act 1973 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'.

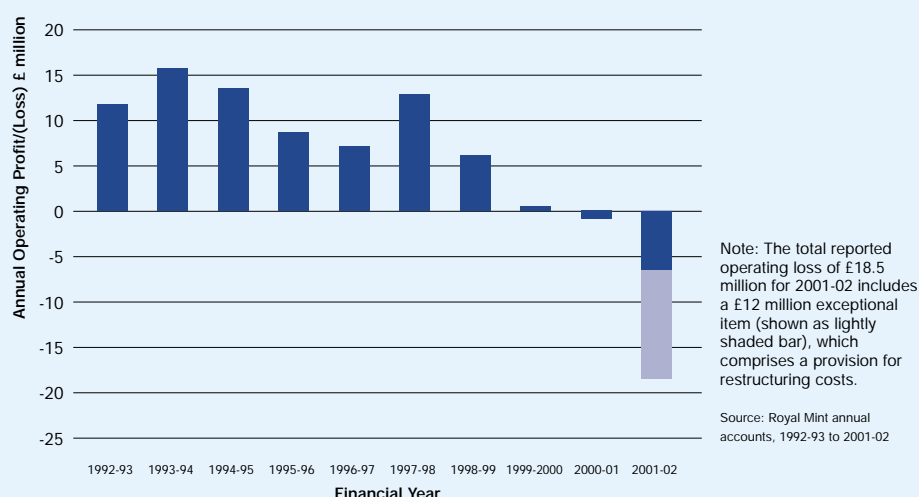
In practice this statutory requirement is generally taken to mean that whilst the Royal Mint is permitted to record an operating loss in any one financial year, this loss should be made good in subsequent years so that financial 'break-even' is achieved. More formal Treasury guidance, set out in 'PES 13', penalises the sponsor departments of 'Self Financing Public Corporations (SFPCs)', a category that includes Trading Funds, whereby a failure by an SFPC to achieve its Corporate Plan targets for two consecutive years results in a reduction in the Departmental Expenditure Limit (DEL) of the parent department in the following year.
3. Given the magnitude of the losses reported by the Royal Mint for the 2001-02 financial year, I have decided to place this report on the accounts to set out the causes of the Royal Mint's deteriorating financial position and to describe the corrective action that the Royal Mint is taking. This report also examines the circumstances that led to a theft from the Royal Mint during the 2001-02 financial year and reports the results of an investigation undertaken by the Deputy Master into allegations of improper payments made by the Mint in previous financial years.
4. I am satisfied that none of these matters has had an impact on the truth and fairness of the financial statements or the regularity of the transactions contained therein. My audit opinion on the 2001-02 accounts of the Royal Mint is therefore unqualified.

Financial Performance of the Royal Mint

Operating Results

5. Over the past decade, the trading performance of the Royal Mint has gradually declined, as shown in Table 1. The Mint's annual operating profits peaked in 1993-94 at £15.6 million, but fell in all but one of the subsequent financial years to reach £345,000 in 1999-2000. (The rise in operating profits recorded in 1997-98 was mainly generated by increased collector coin sales in that year.)

Table 1: Royal Mint annual operating results, 1992-93 to 2001-02

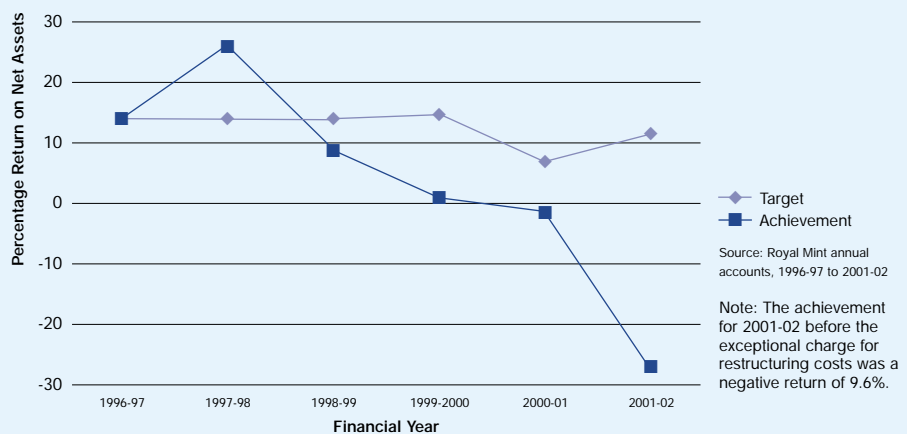


6. In 2000-01, the Royal Mint reported an operating loss of £493,000 - the first year that a loss had been recorded. In the Mint's 2000-01 Annual Report and Accounts, the then Deputy Master stated in his Report that 'although the bottom-line performance for the full year was disappointing, the decline in the Mint's overall financial performance during the previous two years was arrested and reversed in the second half of 2000-01'.
7. However, the Mint's financial performance has worsened considerably in 2001-02 and this year's accounts show a further operating loss (before the £12 million exceptional charge for restructuring costs) of £6.473 million. Whilst overall reserves remain at a healthy level, the downward trend in profitability is not sustainable in the medium term under the Mint's current statutory financial regime.

Performance against financial objectives

8. As a Trading Fund, the Mint is also required under the 1973 Act to 'achieve such further financial objectives as...the responsible Minister [may determine]'. However, the Mint's decline in profitability has also been reflected in the difficulties that it has increasingly experienced in meeting the financial target set by the Chancellor of the Exchequer.
9. For the three financial years 1996-97 to 1998-99, the Mint was set a target expected annual rate of return on net assets of 14 per cent over the period. This target was raised to 14.6 per cent for 1999-2000 but, because of the Mint's worsening financial position, was then reduced to 7 per cent for the 2000-01 financial year. For the period 1 April 2001 to 31 March 2006, the Mint is required to achieve a rate of return of 11 per cent in at least one of these five financial years.

Table 2: The Mint's performance against its financial target, 1996-97 to 2001-02



Causes of the Royal Mint's financial difficulties

Financial Results: 1992-93 to 1996-97

10. During the mid-1990s, the Mint recorded declining levels of annual turnover, which fell from £104 million in 1992-93 to £92 million in 1996-97. This was due to a variety of factors, including:
 - A change in the terms of the Royal Mint's contract with the Treasury for the production of UK coinage, which resulted in lower profit margins;
 - declining overseas market demand for production of circulating coin, coupled with world-wide overcapacity amongst coin producers; and
 - much of the production machinery originally installed when the Mint moved to Llantrisant 30 years previously was coming to the end of its useful life.

11. In response to these factors, in 1997-98 the Mint embarked upon a three-year programme of major change. This £25 million modernisation plan aimed to increase the Mint's productivity and profitability through the restructuring of working practices, shift patterns and remuneration of employees, coupled with significant capital investment and improved staff training.
12. The overall effect of these changes was to increase the Mint's manufacturing capacity to produce circulating coins and blanks from around 18,000 tonnes in 1996-97 to some 27,000 tonnes each year by 1999-2000. The investment programme was also successful in increasing the productivity of the Mint's employees, which rose by some 27 per cent between 1996-97 and 2000-01.
13. One important consequence of the investment programme was to increase the cost base of the Royal Mint. Coin manufacture is a technological, capital intensive industry that tends to carry a high proportion of fixed and semi-fixed costs, which vary little with customer demand. In order to arrest the decline in profitability, the Mint also needed to increase its turnover by improving sales volumes and / or increasing its prices.

Financial results: 1996-97 to 2000-01

14. Despite the benefits of the investment programme, over the period 1996-97 to 2000-01 the Mint's turnover rose by only 5.1 per cent, whilst its cost base rose by 15.2 per cent, as shown in Table 3.

Table 3: Percentage changes in the Mint's Turnover and Costs, 1996-2001

	1996-97 (£'000)	2000-01 (£'000)	Increase %
Turnover	91,566	96,241	5.1
Staff Costs	23,858	30,594	28.2
Raw Materials & Consumables	42,135	46,014	9.2
Other Costs	17,971	20,126	12.0
Total Costs	83,964	96,734	15.2

Source: National Audit
Office analysis

15. A key factor in the lower than anticipated increase in turnover between 1996-97 and 2000-01 was the extent to which the Mint was able to win and retain contracts for the production of euro coin 'blanks' for the twelve nation states which participated in the launch of euro notes and coins on 1 January 2002.
16. This project represented the largest re-coining ever attempted, as some 50,000 million new coins would be required in total. It also represented a significant commercial opportunity for the Mint as, although the United Kingdom was not itself participating in the first wave of the euro, under European Union procurement rules the Mint was able to bid for the contracts for producing blank coins for other European governments. The Mint is a full member of the 'Working Group of European Mints' and participated in developing the detailed plans and technical specifications for the euro coinage. (In accordance with the Government's policy of 'Prepare and Decide', the Mint is required to ensure that robust plans are in place in the event that the euro is adopted by the UK.)
17. The Mint quickly appreciated that approximately 50 per cent of the total number of coins required would be for the three lowest denominations of the euro coinage (1, 2 and 5 cents), which would be produced in copper-plated steel. The Mint had extensive experience of copper-plating and geared its investment programme to create an extra 10,000 tonnes per year of copper-plating capacity to serve the needs of the first-wave euro entrants. This also ensured that the Mint would be better prepared to respond rapidly to any UK government decision to adopt the euro.
18. The Mint aimed to supply blanks for the 10, 20 and 50 cent coins and outer rings for the bi-colour 1 euro and 2 euro coins (similar to the UK £2 coins already produced by the Mint). The Mint's ambitious target was to win around 20 per cent of the total contracts for euro blanks.

19. In the event, the Mint's original business plan assumptions for the euro proved over-optimistic. Whilst euro blanks were shipped to nine countries and outer rings for the bi-colour euro coins to three countries, only 5 per cent of the contracts for euro blanks were awarded to the Mint.
20. The above factors, coupled with losses made on other overseas circulating coin contracts, contributed to the Mint's operating loss of £493,000 reported in 2000-01. Mint officials informed my staff that the effects of these losses cancelled out the profits generated by the collector coin and other commercial operations of the Mint for that year.

2001-02 financial results

21. For 2001-02, the Mint has recorded a further operating loss of £6.473 million, before the £12 million exceptional charge for restructuring costs (paragraphs 23 to 28 refer). As explained in the *Annual Report*, turnover for the year fell by £16.6 million (over 17 per cent), due primarily to a £20.9 million (46 per cent) fall in the value of overseas circulating coin and blank sales. Operating costs excluding the exceptional charge fell by £10.6 million (nearly 11 per cent), partly because the decline in sales reduced the quantities of raw materials needed for production, but also because of a range of measures taken by the Mint's management to control and reduce costs. These included a reduction in average employee numbers from 1,136 in 2000-01 to 1,051 in 2001-02 and a change from seven to five-day working during the year. However, these measures were insufficient to offset the fall in sales and maintain profitability, as shown in Table 4.

Table 4: Percentage changes in the Mint's Turnover and Operating Costs, 2000-01 v 2001-02

	2000-01 (£'000)	2001-02 (£'000)	Increase/ (Decrease) %
Turnover	96,241	79,672	(17.2)
Staff Costs	30,594	28,255	(7.6)
Raw Materials & Consumables	46,014	36,986	(19.6)
Other Costs	20,126	20,904	3.9
Total Costs	96,734	86,145¹	(10.9)

Source: National Audit Office analysis

¹ Excludes £12 million restructuring costs charged as exceptional item in 2001-02

22. Mint officials informed my staff that productivity per employee in the circulating coin area had fallen by some 16 per cent between 2000-01 and 2001-02, and that the average cost per employee has risen by 3 per cent each year since 1998. The fall in demand has meant that the Mint has been operating well below capacity, although this has provided an opportunity to build up the Mint's stockpile of UK circulating coins, which has increased by some 240 million pieces (34 per cent) during 2001-02.

Actions now proposed

23. The Mint's latest Corporate Plan, for the period 1 April 2002 to 31 March 2005, has been approved by the Treasury and sets out a strategy designed to enable the Mint to 'reduce cost in order to compete in a fiercely competitive international market and to lay the foundations for sustained profitability'.
24. The Corporate Plan addresses key factors such as reduced demand in the circulating coin and blank markets now that the euro has been launched, consequent world-wide over-capacity amongst producers and inevitable falls in contract price levels as a result. The strategy is therefore based upon a revised, lower estimate of the level of expected future demand for coins and blanks, both in the UK and in overseas markets. As a result, the Plan calls for a substantial reduction in the production capacity of the Mint.
25. This reduction in production capacity is being implemented through a wide-ranging restructuring programme in order to reduce its cost base and improve efficiency. The restructuring, which was

announced by the Mint in March 2002, involves the loss of between 200 and 220 staff through voluntary and, if necessary, compulsory redundancies, and changes to the working practices of the remaining employees. A benchmarking exercise has also been undertaken to identify areas in which further efficiency improvements can be made.

26. In the Collector Coin area, the Mint aims to capitalise on the potential demand for Golden Jubilee products, to improve marketing and customer service and to ensure that the Mint's strong existing 'brand values' such as quality and craftsmanship are not diluted.
27. The Mint anticipates that the likely total cost of the restructuring programme will be £12 million, and has established a provision for this amount in its 2001-02 accounts. As explained in the Mint's *Annual Report*, the provision comprises anticipated redundancy and early retirement costs.
28. Mint officials informed my staff that they do not expect the Mint to return to operating profitability until 2003-04, as the impact of the various changes set out in the Corporate Plan will only start to take effect during the current financial year.
29. I intend to monitor closely the Mint's financial performance and recovery progress as part of my future audits of the annual accounts.

Theft of banknotes

30. The Royal Mint's plant at Llantrisant in South Wales is a high-security installation guarded by Ministry of Defence (MOD) Police. Robust controls are in place, including the use of metal detectors and random searches of staff and visitors, and these are rigorously enforced to ensure that coins are not taken into or out of the premises without authorisation. (Within the plant, plastic tokens are used as currency.)
31. On 25 October 2000, the Mint took delivery of a consignment of 2,000 brand new £20 banknotes from the Bank of England. This consignment was intended by the Mint to be used in the production of special presentation packs - each containing one £20 note surrounded by decimal coins.
32. The banknotes were placed in a safe located in the Collector Coin Division's 'Gold Store', which is subject to particularly stringent security precautions within the Llantrisant site. However, on 13 December 2001 a stock check of the contents of this safe prior to the commencement of the production run for the presentation packs revealed that 1,284 notes were missing and only £14,320 of the original £40,000 consignment remained.
33. On the discovery of the loss, the section manager informed his senior management and the MOD Police. The MOD Police conducted an investigation into the incident and reported their interim findings to the Mint's Director of Collector Coins in April 2002. The section manager also submitted a report to the Finance Director outlining the circumstances of the loss.
34. The Mint's Director of Finance brought the loss to the attention of the National Audit Office, and in accordance with prescribed procedures formally notified the loss of £25,680 to the Treasury on 17 April 2002.
35. The Mint and MOD Police investigations noted that between April and October 2001 the 'Packing and Despatch' and the 'Collector Coin' areas of the Llantrisant plant underwent a large physical re-organisation. These changes required the removal and re-installation of various storage areas, which included the removal and subsequent return of the items held in each. Mint officials informed my staff that it was found necessary during this period to allow unrestricted access to both areas by internal and external contractors working on the site. Although a supervisory presence was maintained at all times, the normal access and stock controls were not adhered to during this period.
36. The identification of the loss was only made at the first full physical stock check after the restructuring had been completed, and it is therefore not possible to identify precisely when the theft occurred in the period from April to 13 December 2001. In May 2002, the MOD Police

notified the Mint that their investigation had been concluded because of insufficient evidence, but that the matter remained unresolved. As a result, the case would remain on file and would be re-opened in the event that fresh evidence emerged.

37. As a result of the investigations into the theft undertaken by the Mint and MOD Police, the following control breakdowns and weaknesses were identified as contributing to the loss:
- Neither of the two keys to the safe containing the banknotes was held securely;
 - The safe was poorly located within the gold store, being located away from the supervisor;
 - Although within a secure area, the safe was generally opened at the start of the day and left open and unattended until the end of the day;
 - As well as Mint employees, certain contractors working on the site had access to the area where the safe was located;
 - No periodic stock checks of the contents of the safe were made between February and December 2001;
 - The decision to order and store the total expected production run at the outset, rather than drawing down smaller consignments from the Bank of England as required during production exposed the Mint to higher risk and greater potential loss; and
 - Whilst the Mint is highly vigilant in addressing the risk of coin theft from the Llantrisant site, its control procedures (such as metal detectors) were not designed to combat the risk of thefts of other items such as banknotes.
38. As a result of the MOD Police and Mint investigations, a number of improvements to physical security arrangements and working practices have been made at the Llantrisant site. Improvements in documentary procedures to record the receipt and issue of keys and banknotes have also been introduced and, since May 2002, regular stock checks have been made of the contents of the safe. Revised ordering arrangements have also been adopted to ensure that stock levels need only be sufficient to meet immediate business demands.

Improper payments

Claim by The Birmingham Mint Ltd.

39. On 12 June 2002, The Birmingham Mint Ltd issued a Claim in the High Court against the Treasury, claiming in excess of £5.4 million in damages for breach of contract. This claim is to be contested, and has been noted as a post balance sheet event in the Mint's 2001-02 trading fund accounts.

Allegations of improper payments

40. On 16 May 2002 the Chairman of The Birmingham Mint Ltd met with Gerald Sheehan, the Mint's newly appointed Deputy Master (equivalent to Chief Executive). At that meeting, The Birmingham Mint Ltd produced copies of letters from the Royal Mint and other papers for Mr Sheehan to read. The documents purported to show that over several years up to April 1999 the Royal Mint had been involved in the making of improper payments.
41. The Birmingham Mint Ltd refused the Deputy Master's request for copies of these letters and papers (as it was entitled to do), and so he immediately conducted a limited investigation of the Mint's own records to establish whether there was *prima facie* substance to these allegations. He then wrote to Treasury Ministers on 30 May 2002 to alert them and to seek agreement to his proposal that, as the allegations predated his time at the Mint, he was sufficiently independent to perform a full investigation. The Treasury agreed to this course of action and asked the Deputy Master to provide a full report to Ministers on the outcome of his investigation by 21 June 2002.

Results of the Royal Mint's internal investigation

42. The Deputy Master reviewed relevant Mint files and personal expense claims for the last six

years and interviewed several current Mint employees. He took advice from the Mint's solicitors on the conduct of his investigation and structured his interviews with Mint staff so that any potential legal or disciplinary action would not be prejudiced. He did not contact ex-employees or non-Mint staff, other than to request The Birmingham Mint Ltd to supply copies of the papers held by them which supported the allegations. This request was refused in writing by The Birmingham Mint Ltd in light of the litigation it had commenced against the Royal Mint. He was also unable to extend his review prior to 1996 as the relevant Royal Mint papers had been routinely destroyed.

43. From his investigation, the Deputy Master concluded that all payments appeared to have ceased by September 1999 and that the payments he had identified had all been authorised in accordance with the Mint's internal financial procedures. He submitted his report to the Financial Secretary on 25 June 2002.

Treasury response

44. On receipt of the report, it was agreed with Treasury Ministers that the Serious Fraud Office (SFO) should be contacted by the Deputy Master and provided with a copy. The SFO announced on 26 September 2002 that it is now carrying out an investigation in conjunction with the Ministry of Defence Police.
45. On 1 July 2002, the Financial Secretary to the Treasury wrote to the Chairman of the Committee of Public Accounts and the Comptroller and Auditor General to notify them formally of the decision to call in the SFO. On the same day, the Treasury released a short public statement about this matter, having obtained confirmation from the Director of the SFO that this would not prejudice their investigation.
46. The Treasury agreed with the Deputy Master that in the light of his findings, and also the circumstances of the banknote theft referred to in paragraphs 30 to 38 of this report, an independent review of the Mint's internal financial control systems should be commissioned. After a competitive tender exercise for this work, Grant Thornton was appointed to conduct this review in July 2002.

Grant Thornton review

47. The terms of reference issued to Grant Thornton required the firm to:
- 'establish the effectiveness of the Royal Mint's internal financial systems, and make recommendations on improvements to ensure that improper payments cannot be made by the Royal Mint, or third parties on behalf of the Royal Mint, to their customers and agents.'
48. Grant Thornton was required to report its findings to Treasury Ministers and to the Deputy Master. The firm conducted a review of the Mint's key financial controls and procedures, and worked closely with PricewaterhouseCoopers (who provide certain elements of the Mint's internal audit service), KPMG (contracted since 2000-01 to perform the external audit of the Mint for the Comptroller and Auditor General) and the National Audit Office. With the approval of Treasury Ministers, Grant Thornton scoped its work to ensure that it did not overlap with the ongoing SFO investigation. The firm was not required to examine the non-financial or operational controls of the Mint.
49. Grant Thornton submitted its report to the Financial Secretary to the Treasury on 24 September 2002. The report was agreed for factual accuracy with the Mint's management and with PricewaterhouseCoopers, and addressed two main areas. The first of these was the Mint's **overall corporate governance arrangements**, where the firm focussed in particular on:
- The respective roles of the Mint's Audit Committee and Accounting Officer;
 - The adequacy of the Mint's internal audit arrangements; and
 - The Mint's risk management framework.

50. Grant Thornton identified several areas in which the Mint's corporate governance arrangements fell short of best public sector practice. These included:
- The absence of formal terms of reference for the Mint's Audit Committee;
 - A lack of procedures to enable the Audit Committee to ensure that all internal audit recommendations had been implemented by management;
 - That no formal 'Fraud Policy' or 'Public Interest Disclosure Policy' were in place within the Mint;
 - A failure by management to ensure that the internal audit function was subject to competitive tendering on a regular basis; and
 - The absence of an up to date and detailed specification for the provision of internal audit services.
51. The report then looked in detail at the **design and operation of the Mint's internal financial controls**, with particular regard to the controls within:
- Purchasing and payables;
 - Sales;
 - Cash and bank;
 - Payroll;
 - Travel and subsistence;
 - The 'Collector Coin Club' operated by the Mint for its customers; and
 - Information technology systems.
52. Grant Thornton identified a range of control weaknesses within each of these systems, such as:
- An inadequate separation of duties within the Mint's purchase ledger, whereby staff were permitted to amend supplier standing information and also post invoices to the system;
 - That the Finance Department safe containing items such as blank cheques, un-banked receipts and the BACS system password, was left open during working hours; and
 - That there were as many as 14 authorised signatories on the Bank of England bank mandate, although only two signatures were actually needed for payment authorisations.
- Grant Thornton also identified a general absence of operating desk instructions. This restricts the ability of the Mint's management to rotate existing staff between functions to cover for absences and hampers the training of new employees.
53. The Grant Thornton report contained a total of 70 specific recommendations, presented in the form of an 'Action Plan' which incorporated the responses of the Mint's management to each point and also set deadlines for the implementation of each recommendation by the Mint.
54. Grant Thornton concluded that:
- 'We are satisfied with the responses received from the Mint to our recommendations included in the Action Plan. Further, we believe that the timescales for the implementation of the Action Plan are appropriate.
- There is much to be done. However the proper implementation of the Action Plan will provide a solid foundation from which to go forward.'
55. Treasury officials informed my staff that they had received a copy of the Grant Thornton report and noted its recommendations, and that they looked to the Mint to implement these at the earliest opportunity. Mint officials informed my staff that the Grant Thornton report had been a valuable exercise and that a programme to implement the various recommendations contained in the Action Plan was underway. The Deputy Master intended to ensure that all 70 points would be addressed by 31 December 2002 at the latest.

John Bourn
Comptroller & Auditor General
14 October 2002

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