

Royal Mint Annual Report 1999-2000



As at 31 March 2000

Royal Mint Management Board

Roger Holmes

Deputy Master and Comptroller
(Chief Executive)

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The Accounts of the Royal Mint Trading Fund as at 31 March 2000 together with the Certificate and Report of the Comptroller and Auditor General thereon at pages 24-36 are prepared pursuant to section 4(6) of the Government Trading Funds Act 1973. (In continuation of House of Commons Paper No 500 of 1998-99.) Presented pursuant to Act 1973, c.63, s.4(6).

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Deputy Master's Report



Roger Holmes
Deputy Master and Comptroller
(Chief Executive)

The dawn of a new millennium has special significance for the Royal Mint, in spite of a very disappointing financial performance in 1999-2000. First, as possibly the only British manufacturing institution which can trace a continuous history back as far as the ninth century, the Mint can celebrate an existence spanning three millennia. Secondly, the transition from old to new millennium has proved to be a popular time for collecting coins or offering them as gifts, coins being perhaps the most frequently-used and the longest-lasting objects which display their year of manufacture. Thirdly, the Mint has begun to emerge from one of the most difficult periods in its recent history, as we carry through fundamental change programmes designed to secure the Mint's future success in a highly competitive world.

The downturn in financial results for 1999-2000 reflected the pressures and disruption costs of this change programme, especially in the circulation coin and blank production areas. A gradual recovery in these areas was evident towards the year-end. The collector coin business, on the other hand, delivered a healthy growth of sales and satisfactory financial returns, but fell short of its customer service objectives due particularly to high demand for its products.

This period has called both for exceptional patience on the part of many of our customers and our Consortium and other partners

throughout the world and for exceptional determination on the part of the Royal Mint employees in making the changes effective and adapting to new equipment and new ways of working. In expressing my gratitude, may I reiterate my commitment and that of the entire Mint team to delivering the benefits of these changes to our customers in the months and years to come.

Review of Trading

Sales of £95.6 million in 1999-2000 were slightly higher than in 1998-99 (£91.4 million). Production of 3,751 million circulation coins and blanks was 2% down on the previous year, whereas production of collector coins rose by 23%.

United Kingdom circulation coin issues of 1,986 million were 47% up on the previous year and 28% above the forecast agreed between the Mint and the banks. The volume of issues was an all-time record, excluding years with recoinages of one or more denominations. This sharp increase in demand, which is now forecast to continue at around this level, was partly due to the revival in economic activity (especially in the retail sector) but seems also related to the reduced propensity of the public to re-circulate low-denomination coins - a phenomenon noticeable also in other developed economies such as the USA.

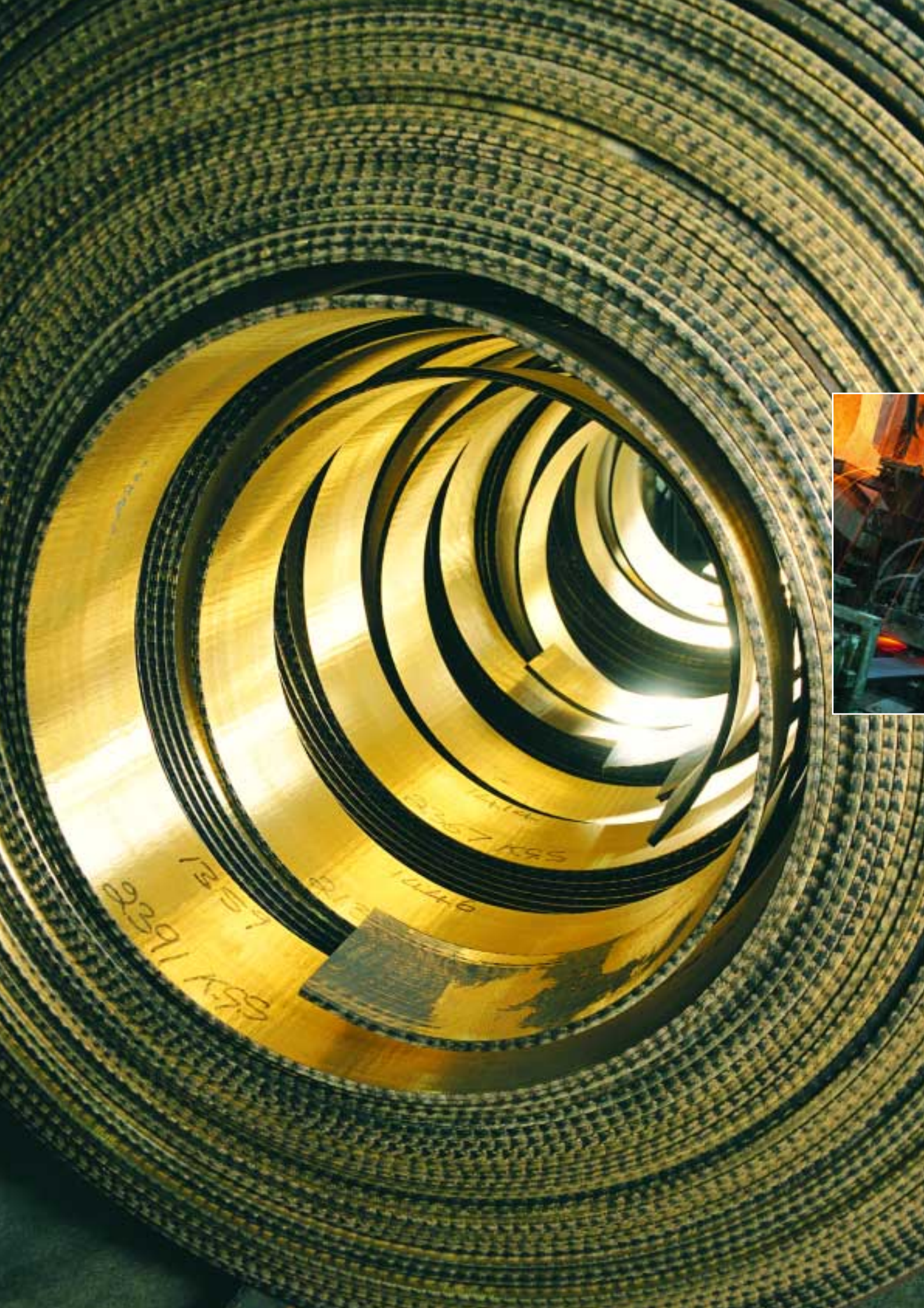
The Mint was pleased to be authorised to issue a United Kingdom £5 coin in 1999 in memory of Diana, Princess of Wales, and the proceeds from both standard and collector versions of this coin are being contributed to the projects recommended by the Diana, Princess of Wales Memorial Committee.

Overseas business accounted for 54% of total sales. Coins or ready-for-striking blanks were produced for fifty-nine countries. Although the strength of sterling and competitive pressures have contributed to reduce profitability, the Mint successfully maintained its position as the leading exporting mint for coins and blanks worldwide.

Left: The silver proof version of the Millennium Crown, showing the British Isles and the hands of the clock highlighted in gold.

Below: The 50 pence piece commemorating the 150th anniversary of the Public Libraries Act of 1850, designed by Mary Milner Dickens.





Handwritten markings on the metal strips include:
2339 / K-99
1305
9777
12357 K-99
12446



Above: **Molten nordic gold, the chosen alloy for the 10, 20 and 50 euro cent coins, being transferred into the holding furnace prior to casting.**
(Molyneux Associates)

Left: **Coils of cast nordic gold.**
(Molyneux Associates)

The biggest influence on the Mint's profitability in circulating coins and blanks was the performance of the factory. More time than expected was needed during the year to bring additional capacity up to optimum levels of efficiency and quality; to refurbish older equipment and restore it to full production; to tackle bottlenecks in the production process; and to ensure through training and process control that employees in many areas become fully effective in new or revised working methods and shift patterns. These factors, arising from the Mint's exceptionally heavy investment programme and the package of operational changes described in last year's report, depressed production levels well below the Mint's full capacity for most of the year.

Collector coin activity, on the other hand, recovered strongly compared with 1998-99, thanks to an attractive range of products enabling the Mint to take advantage of the millennium factor and economic growth. The success of the £2 coin for the Rugby World Cup was followed by strong demand for our range of millennium products, which included the United Kingdom millennium crown, a 24-country Millennium Masterpiece coin collection and a millennium medal created in partnership with the British Art Medal Society. A coining press has also been set up in the Millennium Dome to produce a specially mintmarked version of the millennium crown for Dome visitors.

The popularity of these and other products has expanded the Mint's customer base both in the UK and overseas. However, it also caused problems in fulfilling customer orders within the target delivery times, and these problems were accentuated by delays in supplies of new packaging. The Mint's achievement against each of its published customer service targets is set out on page eight.

Despite packaging problems, progress was made during the year in many aspects of our supply chain management. Around £1 million

of value for money savings was secured, well ahead of target.

Capital expenditure totalled £6.1 million, a substantial reduction from the previous year as the expansion of the Mint's blank production capacity was largely concluded with the commissioning of a third copper plating plant in mid-1999. Nevertheless the Mint's fixed asset base increased substantially, due in part to an upward revaluation of land and buildings. Net working capital was broadly unchanged.

Operating profit fell to £0.3 million compared with £5.8 million in 1998-99. The net profit on net assets was therefore 0.5% compared with the Mint's published financial target of 14.6%. Profit after interest was £0.7m, and accordingly a dividend of £0.5m in respect of 1999-2000 has been paid to the Treasury.

Looking to the future

The necessary improvement of profitability depends mainly on the delivery of the benefits of the capacity expansion (approximately 50% between the end of 1997 and the end of 1999) and change programmes in circulation coins and blanks. Good progress has been made with the implementation of action plans which include:

- management changes;
- productivity improvements;
- reorganisation of blank sorting and quality assurance;
- 'right first time' programme to reduce scrap and re-work;
- systematic approach to improving equipment utilisation, particularly through the Total Productive Manufacturing initiative which involves employees at all levels through teamworking.

The main focus of the capital expenditure programme in 1999-2000 was in copper plating, where the opening of a new plant and the refurbishment of the oldest of our copper plating facilities brought the Mint's total effective copper plating capacity up to



A new high energy burnishing machine, installed to improve the quality of blanks.
(Molyneux Associates)

15,000 tonnes per annum by the year-end. The Royal Mint is now the largest supplier in the world for copper-plated steel, which is the chosen material for the three lowest denominations for the euro coinage as well as for the UK (1p and 2p) and many other countries. Other major projects included a new annealing furnace and additional blank finishing equipment to relieve a critical bottleneck.

Investment in information technology has continued at a high rate. The Y2K threat was handled successfully at a very modest cost, not only because of the skills and dedication of the relevant Mint staff but also because the bulk of the Mint's systems were up-to-date and already Y2K compliant. The Mint is now engaged in the progressive introduction of an Enterprise Resource Planning System, TROPOS, initially into Collector Coin and Master Tools, which will generate substantial business and customer service benefits. An extensive upgrade of PCs to run the Microsoft NT operating system was completed.

The Mint's website (www.royalmint.com) has been enhanced for the greater convenience of users. Even without

advertising, the site is attracting 20,000 visits per month, and sales of collector coins over the Internet grew sharply, well ahead of target.

Highlights in the Mint's extensive research and development programme have included:

- nordic gold, the material chosen for the 10, 20 and 50 euro cents, being successfully cast and processed into ready-for-striking blanks in bulk volumes;
- the first phase of equipment for imparting new security devices on to coins being ordered, for installation and trial in 2000-2001;
- the Mint's first coins to bear holograms being produced as the silver piedfort version of the United Kingdom £2 coin celebrating the Rugby World Cup in 1999.

The Mint is devoting substantial resources to planning and achieving compliance with environmental, health and safety regulations as they become progressively more stringent and as the use of chemicals within the Mint's processes grows with the expansion of plating capacity. In particular, the Mint's systems and procedures are being upgraded (with the support of expert consultants) to ensure that the minimum requirements of the Control of Major Accident Hazards Regulations 1999 are exceeded.

People

The Total Productive Manufacturing (TPM) initiative has developed strongly during 1999-2000 to involve more employees at all levels in the factory and to begin delivering benefits in terms of improved equipment utilisation and in a cleaner, tidier workplace. By April 2000 nineteen TPM teams were engaged on improvement work in all of the major parts of the factory, and all factory areas had achieved satisfactory results in audits of their progress towards sustained good housekeeping.

The Mint retained its accreditation as an Investor in People after the required triennial

external appraisal. Training expenditure continued at a high level, primarily because of the multi-skilling programme arising from the restructuring package introduced in October 1998.

Building on the teamwork theme of this package, management and trade union representatives worked together during the year in a Steering Group to oversee the development of a unified job structure covering both industrial and non-industrial employees. This is to be followed during 2000-2001 by discussions on harmonising performance appraisal and pay systems.

Efforts to reduce absence and eliminate excessive overtime were rewarded with a fall of 17% sickness absence in 1999-2000 compared with the previous year.

The total number of full-time equivalent employees at the Royal Mint rose from 1030 on 31 March 1999 to 1126 on 31 March 2000. This reflected the higher level of activity in Collector Coins and the drive to make full use of the 50% capacity increase in blank production and processing. Productivity improvements were recorded in most of the production departments.

The Duke of Wellington (left) and the silversmith Christopher Lawrence (right) admire the silver Waterloo Medal salver presented to the Duke by the Royal Mint. These salvers proved a popular sales item during the year.



Following the outcome of the Treasury review of the Royal Mint which was covered in last year's Report, the Mint welcomed two new non-executive directors to its Management Board in March 2000 - Jan Smith and David Stark. At the same time the Treasury appointed a Shareholder Panel to advise them in carrying out their role as the Royal Mint's 100% shareholder.

The most significant individual event of the year was the retirement of His Royal Highness The Prince Philip, Duke of Edinburgh, as President of the Royal Mint Advisory Committee. His contribution to the Committee and the occasion marking his retirement, after forty-seven years, are covered in greater depth on pages 21 to 23. His active and distinguished guidance of the Committee will be greatly missed.

Prospects

The collector coins and medals business is expected to maintain a healthy level of profitability in its core activities and to implement a growth strategy over the next few years with the benefit of the extra commercial freedom promised in last year's Treasury review. Reversing the decline of the Mint's overall profitability, however, depends more critically on the recovery of the circulation coins and blanks business. This in turn depends on a variety of internal and external factors, but I believe that the foundations have been laid for a substantial improvement of our internal performance over the coming year.

Roger Holmes

Deputy Master (*Chief Executive*)

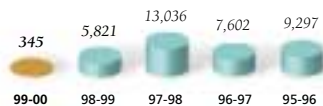
Financial Summary

	1999-2000 £'000	1998-99 £'000	1997-98 £'000	1996-97 £'000	1995-96 £'000
MODIFIED HISTORICAL COST BASIS:					
United Kingdom sales	43,444	33,714	48,842	37,805	35,026
Overseas sales	52,129	57,643	63,045	53,761	55,816
	<u>95,573</u>	<u>91,357</u>	<u>111,887</u>	<u>91,566</u>	<u>90,842</u>
Operating profit	345	5,821	13,036	7,602	9,297
Profit for the year	668	6,289	13,567	7,679	9,949
Dividend	500	-	7,000	3,000	9,500
Retained profit for the year	168	6,289	6,567	4,679	449
Capital employed at 31 March	70,445	66,960	60,640	56,256	51,679
Operating profit/sales	0.4%	6.4%	11.7%	8.3%	10.2%

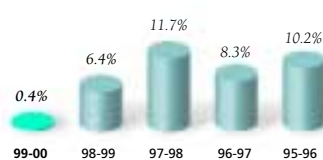
UNITED KINGDOM / OVERSEAS SALES
£'000



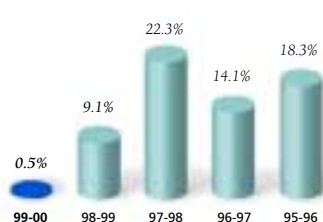
OPERATING PROFIT
£'000



OPERATING PROFIT/SALES



FINANCIAL OBJECTIVE RATIO



Key Ministerial Targets

	1999-2000	1998-99	1997-98	Proposed 2000-2001	
Target 1					
To achieve an average rate of return of 14.6% on net assets over the period 1 April 1999 to 31 March 2000				not yet confirmed	
Target	14.6%	14.0%	14.0%		
Outturn	0.5%	9.1%	22.3%	-	
Target 2					
UK circulating coin	Target	96.0%	95.0%	95.0%	97.0%
Accepted orders from UK banks and Post Office to be delivered within eleven working days		within 11 days	within 12 days	within 12 days	within 11 days
Outturn	99.6%	99.8%	98.0%	-	
Target 3					
UK collector coin	Target	95.0%	95.0%	95.0%	95.0%
Orders from individual UK customers to be delivered within twenty-five days from receipt of order or published issue date		within 25 days	within 28 days	within 28 days	within 25 days
Outturn	68.0%	94.0%	73.0%	-	
Target 4					
Medals	Target	97.0%	95.0%	95.0%	97.0%
Orders delivered by agreed delivery date		97.2%	99.2%	96.0%	-
Target 5					
Quality	Target	99.70%	99.65%	99.65%	99.7%
Collector products accepted by individual UK customers		99.65%	99.70%	99.65%	-

United Kingdom Circulating Coinage

ESTIMATED NUMBER OF COINS IN CIRCULATION 31 December 1999

Denomination	Face Value (£m)	Number of Pieces (Millions)
£2	263.66	132
£1	1,089.43	1,089
50 pence	270.83	541
20 pence	359.37	1,797
10 pence	149.84	1,498
5 pence	176.49	3,530
2 pence	102.05	5,102
1 penny	84.60	8,459
Total	2,496.27	22,148

ISSUES OF UNITED KINGDOM CIRCULATING COINS 1999-2000

Denomination	Face Value (£m)	Number of Pieces (Millions)
£2	104.07	52
£1	9.39	9
50 pence	22.02	44
20 pence	21.10	106
10 pence	7.74	78
5 pence	16.04	321
2 pence	9.21	460
1 penny	9.16	916
Total	198.73	1,986

The edge inscription on the circulating £2 coin has generated a great deal of interest.



Issues

Issues of United Kingdom coins were at record levels and almost reached 2 billion pieces during the financial year 1999-2000. This in part reflected an unexpected continuation of demand between January and Easter, traditionally a quiet period when coins are returning to banks after Christmas. A high level of demand seems likely to continue and has revitalised discussions with the banks about improving the ability to predict requirements, thereby enabling the inevitable peaks and troughs to be less disruptive to levels of production. Whatever the long term future, for the moment coins clearly seem certain to remain a major form of payment in the personal sector.

As in recent years, issues were dominated by 2p and 1p pieces, with the latter again accounting for almost half the coins required during the year. Demand for 10p pieces picked up substantially after a quiet 1998-1999, while the number of 5p pieces doubled to 321 million. Issues of the £1 coin increased towards the end of the year.

Number of Coins in Circulation

With new issues at record levels, the number of coins estimated to be in circulation had risen to more than 22 billion at 31 December 1999. In theory more than 60 per cent of these coins are 2p and 1p pieces, but many must be in private hoards, whether for savings purposes or simply through unwillingness to carry them around. If they could circulate more actively, the demand for new coins could thereby be reduced,

but it is interesting to note that a similar phenomenon is apparent in relation to low-denomination coins in other countries, such as the USA.

What is more gratifying is that the number of £2 coins in circulation doubled in the year to 132 million. This is heartening evidence of popular acceptability of an innovative coin, an acceptability made explicit by the writer of a letter to the London *Evening Standard* who, likening the coin to a piece of burnished Celtic jewellery, described the sight of it as something that lifted the spirits. The edge inscription *STANDING ON THE SHOULDERS OF GIANTS* continues to intrigue those not familiar with the Isaac Newton quotation, and the words gained extra currency when they inspired the title of an album by the pop group Oasis. Less helpful was a silly rumour, entirely without foundation, that misled members of the public into believing that the £2 coins of 1997 bearing the previous portrait of the Queen by Raphael Maklouf were rare and were accordingly of extra value.

Commemorative Coins

Three commemorative coins were successfully issued through banks and post offices during the year: the Diana, Princess of Wales memorial crown, the millennium crown, and a bi-colour two-pound coin to celebrate the Rugby World Cup. Issues of the two crowns had reached approximately five million pieces by the end of the year, but it is not of course expected that these coins will appear in circulation in significant numbers, if at all. The two-pound coin, on the other hand, for which issues reached a similar figure of five million, should find its way into circulation and will, it is hoped, promote public interest in the coinage.

Before the end of the year collector versions became available of a fifty pence piece to commemorate the 150th anniversary of the Public Libraries Act of 1850 but circulating coins will not be released at face value through banks and post offices until August.



Overseas Circulating Coins and Export Blanks

The fifty-nine countries where the Royal Mint supplied coins to monetary authorities or ready-for-striking blanks to mints were spread across every continent and also covered a very wide spectrum in terms of size, level of development and scope of their requirements. This was in spite of very competitive market conditions and a continuing weakness in coinage demand in many parts of Asia and South America.

Whilst Hong Kong was, once more, our most important single customer, the most notable development during the year was the further extension of the Mint's business within Europe, particularly for coinage blanks. The Mint has now established a customer base of over twenty European countries, many of which had been previously dominated by domestic suppliers.



One of many crates of euro blanks being prepared for despatch.
(Molyneux Associates)

Countries for whom coins were struck during the year included Bahrain, Guernsey, Jamaica, Latvia and Malawi.



This major change in the European market has been prompted by the euro, which represents the largest re-coinage ever attempted. The eleven countries participating in the launch of euro cash on 1 January 2002 are advancing steadily in the mammoth task of producing some 50,000 million new coins. The Royal Mint's role in this process has been threefold:

- a) to participate within the relevant European Union's institutions in finalising the detailed technical specifications and quality management system for producing the euro coinage;
- b) to learn from the first-wave euro countries in order to discharge our responsibilities to guide the UK's planning and preparation process, so far as coins are concerned, within the framework of the Outline National Changeover Plan; and
- c) to assist other EU mints with their production requirements, principally by supplying blanks and in some cases coinage dies.

The Royal Mint quickly established itself as one of the leading suppliers of copper-plated steel blanks for the three lowest euro denominations (1, 2 and 5 euro cents). During 1999-2000, the Mint also began shipping blanks in nordic gold (the chosen material for the 10, 20 and 50 euro cent coins) and proved its capacity to supply outer rings for the bi-colour 1 euro and 2 euro coins. In the blanks market, the Mint is competing against major private sector international companies. Taking account also of the ready-for-striking blanks which the Mint has supplied to non-EU countries, its position as a leading exporter of blanks as well as coins worldwide has been firmly established.

The Mint has retained its accreditation under the ISO 9001 quality standard, and in July 1999 the Mint received approval for its Quality Assurance Plan under the euro

quality management system, enabling it to produce euro coins if required.

The breadth of the Mint's product range and capabilities continues to rank amongst its major competitive advantages, embracing:

- circulation coins and blanks in every feasible combination of size, shape, colour, metallic composition and packaging;
- purchase of withdrawn coins for secure melting at the Mint;
- supply of coining tools to other mints, with technical support if required;
- striking of collector coins and medals in base and precious metals;
- recruitment of countries to join international collector coin programmes which are marketed through the Mint's worldwide network; and
- consultancy and manufacturing equipment, through Royal Mint Services (RMS), for the setting up of a new mint or refurbishment of an existing mint.

All of these elements in our portfolio were active during 1999-2000. The achievement of RMS (a joint venture with De La Rue plc) in completing the installation and commissioning of a new mint in Venezuela was a particular highlight of the year. RMS is now focusing its effort on several new projects and was able to pay a significant dividend to its parent organisations.

Most of the Royal Mint's exporting activities are undertaken in a Consortium relationship with De La Rue plc and The Birmingham Mint Limited, and their contributions during the year helped to maintain the Consortium's effectiveness in the thirty-fifth year of its existence.



Collector Coins

United Kingdom Coins

For both the collector and souvenir buyer, 1999 was always going to be a milestone year with the approach of a new millennium and the issue of the first 2000-dated coins.

At the beginning of the year the interest in coins bearing the 1999 date was quickly evidenced by sales of the annual proof and brilliant uncirculated sets. Centrepiece of the proof set was the Diana, Princess of Wales commemorative coin which, understandably, enhanced sales by appealing to those members of the public who wished to acquire an appropriate tribute to the late Princess. A brilliant uncirculated version of the crown, housed in a special presentation folder, was well received in all markets, while special gold and silver limited editions attracted worldwide interest, notably in the Far East and especially in Japan. The 7,500 issue limit of the gold version was very quickly fully subscribed.

During the summer, as Wales prepared to play host to the Rugby World Cup, came the issue of a special two-pound coin - the third to mark a sporting occasion following the Commonwealth Games in Scotland in 1986 and, more recently, the 1996 European Football Championship hosted by England. As on these previous occasions, although there was some interest overseas, the domestic market was the prime target, with the innovative souvenir pack containing the coin struck to brilliant uncirculated standard attracting the greatest interest.

Finally, to celebrate the new millennium a special United Kingdom crown was authorised bearing, on the reverse, a design by Jeffery Matthews of a symbolic clock face with the hands set at the twelve o'clock position between the dates 1999 and 2000. Demand for the coin was strong, particularly as the new millennium drew closer.

Technical Innovation

The millennium provided the opportunity to demonstrate that the Royal Mint is at the forefront of minting technology. This was at

its most evident with the Millennium Masterpiece Collection, a collection of twenty-four coins from around the world and in which each coin portrayed a feature unique to its country of origin. Kiribati and Samoa, for instance, combined to issue a two-part coin since their location either side of the international date line meant that they were the first and the last to welcome the millennium. The New Zealand coin, with a part-plated design feature, tested printing and plating techniques, while nearer to home Guernsey issued two coins, a collar and a nugget, that fitted together to become one. The collection not only challenged existing processes and required new processes to be developed, it also offered collectors a truly unusual series of coins and they have responded well since the initial launch in September 1999.

Additional evidence of the Royal Mint's readiness to embrace new technology was provided by the silver piedfort version of the Rugby World Cup two-pound coin. Here, for the first time in the history of the United Kingdom coinage, the central feature of the reverse design was reproduced in the form of a hologram. This ground-breaking coin, with an issue limit of 10,000, was heavily over-subscribed within days of being made available to Royal Mint Coin Club Members.

Markets

The diversity of the product range led to strong demand throughout all markets, with the Coin Club handling record volumes as orders in the domestic market increased from 234,000 to 275,000. Membership of the Coin Club in the United Kingdom increased by 30 per cent, while in the United States membership more than doubled, reflecting the success of customer acquisition programmes built around the new coins issued in 1999. The challenge for the immediate future is to ensure that these new customers are converted into repeat purchasers, and initial signs are encouraging.

The innovative hologram was an attractive feature of the silver piedfort version of the Rugby World Cup £2 coin.

(Allsport - Dave Rogers)





Pages from the upgraded
Royal Mint website
(www.royalmint.com).

Following last year's success of the website (www.royalmint.com) a web specialist was recruited to improve control and to speed development. During the year the site was significantly improved both in terms of its content and its ease of use, and visitors and numbers of sales have increased significantly over the last year. Without advertising, the site is now attracting some 20,000 visits per month and has been recognised as a key expanding market. It is therefore planned to develop the site further and to test advertising.

A new market was created by the sale at the Millennium Dome in Greenwich of millennium crowns struck by the coining press which has been installed there. A special globe mintmark on the reverse signifies that the coin was actually struck by the press, and its attraction for collectors and souvenir buyers alike is enhanced by the fact that it is the only commemorative product to be manufactured at the Dome. Sales of the special coin pack have grown steadily and it now ranks as one of the Dome's best-selling items.

The marketing of United Kingdom coin sets through Post Office Counters branches has developed well, the network of offices now stocking Mint products having increased by 30 per cent. With so many individual outlets, there is a corresponding logistical challenge to provide a regular supply to each branch.

Customer Service

Success, indeed, is not without its problems. With order levels of all products, including the wider product portfolio, exceeding forecasts, additional pressure for packaging and special products was put on the Royal Mint's suppliers, whose other customers had also become more demanding. This resulted in a shortfall of packaging material and, in consequence, a disappointing reduction in service levels from 94 per cent of orders fulfilled within the delivery promise last year to 68 per cent this year. Valuable lessons have been learned and, with more

robust control systems and flexible working arrangements, it is expected that many of the problems experienced will be resolved during the coming year.

One of the major developments in improving customer service is the project, now well under way, to develop a modern integrated planning and scheduling system. Sales order processing and master tools planning were introduced during the year and further implementations are intended which will progressively improve responsiveness to customer requirements. The system has already improved stock accuracy and enabled stock levels to be lowered.

Developing Partnerships and Products

During the year existing partnerships continued to be strengthened, including joint ventures with Debden Security Printing in the issue of special coin and banknote sets to mark the millennium, and also with the British Philatelic Bureau in a number of coin and stamp first-day covers, culminating in the very successful millennium issue at the turn of the year. Associations with new companies have also been developed as the product portfolio has extended into more diverse areas.

Several projects were undertaken to generate interest outside as well as inside the coin collecting world and were successfully completed. Items produced and sold included a hip flask incorporating a Rugby World Cup two-pound coin, an Edinburgh Crystal clock combined with a millennium crown, and a Wedgwood plate featuring Philip Nathan's standing Britannia design. These novel items proved very popular and, somewhat perversely, demand exceeded supply to the extent that their success contributed to the decline in achieving customer service targets. New jewellery pieces were also offered during the year featuring, for the first time, an overseas coin - a tiny one thirtieth of an

ounce gold coin from the Cook Islands - which was successfully offered in a necklace and a bracelet.

The relationship with the silversmith Christopher Lawrence continued with the production and sell-out of arguably the most spectacular product yet, the Waterloo Salver. At the centre of the salver is an electrotype reproduction of Benedetto Pistrucci's beautiful reverse design for the medal commissioned to commemorate the Battle of Waterloo. Around the edge of the

salver, fluted at alternate intervals and linked by delicate tracery, are the Arms of the Duke of Wellington and the Waterloo Lion, which stands overlooking the battlefield. The salver was available in silver and, magnificently, also in gold.

Following the success of these products, and given the decision to extend the Royal Mint's operating remit, additional resources will be devoted to developing this area in the future.

The highly successful Waterloo Salver, developed in collaboration with Christopher Lawrence.





Roger Holmes
Deputy Master and Comptroller
(Chief Executive)

EXECUTIVE DIRECTORS



Keith Cottrell
Director of Sales



Allan Pearce
Director of Human Resources
and Corporate Affairs



Graham Davies
Director of Finance



Alan Wallace
Director of Collector Coin



Geoff Payne
Director of
Engineering Services

People

Employee Relations

During 1999-2000 further progress was made in the practical implementation of the concept of partnership in the Mint's employee relations, building on the package of reforms negotiated and introduced in 1998-99.

In 1999 a two-year partnership agreement was reached between management and the AEEU on behalf of the industrial workforce, which incorporated both a linkage of an element of pay to improved customer satisfaction and the introduction of the concept of assessment and appraisal of employee performance for industrial employees.

Significant progress has been achieved towards harmonisation between industrial and non-industrial employees. Local representatives and full-time officers of the AEEU, IPMS and PCS have jointly participated with management in the Project Team and Steering Group, which over the last nine months have developed a unified broad band job structure incorporating all of what were previously industrial and non-industrial jobs. A joint exercise to share the work undertaken with all employees via a major briefing and feedback programme has been planned.

Numbers Employed

The average number of employees reached 1084 for 1999-2000, compared with 994 in 1998-99. The total number of full-time

equivalent employees as at 31 March 2000 was 1126, also a significant increase over the figure of 1030 a year earlier. These increases reflect the completion of recruitment for the new shift patterns (and concomitant reduction in levels of overtime working in the Circulation Coin Business) together with the extra labour required for the successful Collector Coin sales promotions over the Millennium period. The end-year employment figure included ninety-one casuals, reflecting the need for flexibility in response to seasonal and other variations in workload.

Recruitment/Retention

The Mint's management team was significantly strengthened during the year by a combination of successful recruitment from the private sector and internal reorganisation. As regards specialist functions, the work of the last few years has addressed the turnover problems suffered in critical craft and technician areas in the past, but Y2K pressures on key IT skills have not eased to the extent which would see this area of concern resolved.

Another busy year saw forty external recruitment programmes and 103 appointments. Nevertheless the target of an average four-week lead-time between agreeing a job description for recruitment and offering an appointment was achieved. The Internet was successfully used for advertising job vacancies for the first time.

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

Building competitive advantage through people remains at the core of the Mint's plans. Investor in People status, first achieved in 1996, was successfully retained after an external appraisal in 1999. A high level of commitment to training was maintained.

Band of Post	Candidates				Recruited
	Male	Female	Ethnic Origin	Disabled	
Non-industrial					
Band C	2	-	1 German	-	2 Male (1 German)
Band D	3	-	-	-	3 Male
Band F	2	-	-	-	2 Male
Band G	2	4	-	-	2 Male / 2 Female
Band H	3	-	-	-	3 Male
Band J	2	3	-	-	2 Female
Band K	4	16	1 Indian	-	2 Male (1 Indian) 10 Female
Industrial					
Semi Skilled	10	6	-	-	6 Male / 4 Female
Mint Skilled	61	13	-	-	49 Male / 8 Female
Craft	10	-	-	-	8 Male

NON-EXECUTIVE DIRECTORS



Gisela Burg CBE



Sidney Taylor



Lyndon Haddon



Jan Smith



David Stark

A Royal Mint craftsman (left) receiving congratulations on achieving full multi-skilling accreditation.

Overall, the average number of training days per employee (including on-the-job training) rose to 14.2, compared with 12.4 last year and the Mint's minimum commitment of 5 per year.

The Mint's Corporate Plan calls for a multi-skilled and flexible workforce that can respond to the changing demands of its international customers. The ability of the Mint's workforce to respond to fully competitive levels of service and quality and the *right first time* initiative, introduced in Circulating Coin, is underpinned by the Development and Training Plans for 2000-2001.

A number of milestones have been reached during the last year contributing to the change in culture the Mint requires for the twenty-first century.

- Craftsmen from Production departments across the Mint have qualified and been assessed as competent in a range of multi-skill tasks from outside their core discipline. This will lead to greater flexibility, help to reduce downtime and hence increase productivity.
- Team leaders from both Circulating Coin and Collector Coin have all attended Development Centres, and personal development plans for these key employees are currently being implemented.

- Succession planning during the next three to five years will form a significant element of the Development and Training Plan. Individuals are being identified and development put in place to ensure via better planning that the Mint does not lose key skills or suffer skills degradation, taking account of an employee age profile indicating a large number of retirements over the next five to ten years. The Mint has maintained its policy of taking on six people for multi-skilled apprenticeships each year.

Communication and Involvement

The Mint has reinforced its commitment to direct communication with employees, briefing the strategic plans for each of its businesses, updating employees every month on key results and distributing *Mint Condition* our monthly internal employee newsletter.

The Mint's collaborative programme of research with Bath University, surveying employee attitudes and perceptions whilst the major change programmes unfold, has been completed and has produced some interesting findings. For example, whilst 65% of employees surveyed felt they were working harder, 88% said they enjoyed working as hard as they do. Feedback from the research has helped to improve and refine the management of change and has strengthened the emphasis on better communications at all levels.

The 17% reduction in sickness absence which the Mint achieved compared with the previous year bears testimony not only to a pro-active employee welfare function but also to the positive impact of teamworking and greater employee involvement. It reflects, too, the commendable desire of employees to contribute to the recovery of the Mint's business results.





HEATHFIELD SCHOOL
WELCOMES THE
NEW MILLENNIUM

Dr. T. D. G. G. G.

MOORHILL PRIMARY SCHOOL
CANNOCK

ELLES
PRIMA

GUYHIRN
CHURCH OF ENGLAND
PRIMARY SCHOOL
2000

CHRIST AT OUR
CENTRE, THE
CHILDREN AT OUR
HEART

I CELEBRATED THE
MILLENNIUM AT
WILDRIDINGS PRIMARY
SCHOOL

LEFFORD SCHOOLS
2000

WILDFIELD
PRIMARY SCHOOL

CLYDACH JUNIOR
MILLENNIUM
CELEBRATIONS
2000

CRO

NEW LANARK
PRIMARY
SCHOOL

WHITTINGHAM
COMMUNITY
PRIMARY SCHOOL

TURNHAM
FOUNDATION SCHOOL 2000

REDWOOD
PRIMARY SCHOOL

S P
SCHOOL

LANSBURY PARK
SCHOOLS

P K S
K

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The year's activities reflected the great interest in the millennium. As well as the issue of commemorative coins and a Royal Mint presence in the Millennium Dome, souvenir medals were very popular. This was especially the case with schools, witnessed here by four fortunate recipients at Netherton Infants and Nursery School. (Huddersfield Daily Examiner)



Rugby World Cup commemorative medal.

Felicity Powell's winning designs for the Millennium Medal, with (below) the second-placed designs by Dhruva Mistry.



Medals

Official Medals

Demand for mounted medals for the armed services continued at the reduced level of last year.

Two new medals, however, were struck for the Volunteer Reserves. The first of these, the Volunteer Reserves Service Medal, rationalises and replaces five existing long service awards and follows the traditional oval shape of these medals. The second medal, the Queen's Volunteer Reserves Medal, is an entirely new award for meritorious service and is to be issued in extremely limited numbers.

It was agreed that the reverse designs should take the form of an inscription and Mrs Caroline Webb, an artist specialising in lettering, was accordingly invited to prepare drawings. These were discussed with representatives of the Ministry of Defence and the Cabinet Office before being submitted to the Royal Mint Advisory Committee and, from the designs subsequently recommended by the Committee, models were prepared under Mrs Webb's supervision by a member of the Royal Mint Engraving Department. Both medals have now been struck and issued.

Millennium Medals

The millennium provided a welcome and unexpectedly large increase in the demand for commemorative medals, with the Royal Mint's efforts centred around Felicity Powell's charmingly simple but highly appropriate dandelion design.

The design was obtained as a result of a public competition promoted and organised with the enthusiastic co-operation of the British Art Medal Society. From the hundreds of entries the distinguished panel of judges selected the designs by Felicity Powell, with those submitted by Dhruva Mistry as runner-up. The winning designs appeared first on a bronze medal at 63 millimetres, and this quickly reached its issue limit of 1000. A reduced-size version was then offered to schools and other organisations, with the option of combining the dandelion obverse with a customised design on the other side, and proved especially popular with schools. Well over 200 orders have already been received, totalling nearly 100,000 medals, and these figures are still growing as orders continue to arrive.

An additional version, made in much smaller size in silver, has been prepared for sale in the form of a necklace, while Dhruva Mistry's second-placed designs are now available as a cast medal in bronze.

Commercial Medals

Medals continued to be supplied for commercial customers and other clients, often with the most pressing of deadlines for completion. Particularly noteworthy were the medals struck for the opening of the Scottish Parliament, those presented to players in the Rugby World Cup Final, and those given to guests at the opening night ceremonies at the Millennium Dome.

The Royal Mint centenary medal series, which each year since the late 1980s has commemorated a prominent centenary of one kind or another, was thought to have run its course and has been discontinued. It will be replaced by other medal projects and, in the light of the success enjoyed by the millennium medal, the Royal Mint hopes that, with the right subject and with attractive designs, the commercial future for medals may be bright.

Royal Mint Advisory Committee, 1999-2000

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.

Retirement of the President

The year was marked by the retirement of His Royal Highness The Prince Philip, Duke of Edinburgh, as President of the Committee.

His Royal Highness had been appointed to the specially created post of President as long ago as 1952, shortly after the accession of Her Majesty The Queen. He attended his first meeting on 21 March 1952 and was at once fully involved in the important task of selecting designs for the coins of the new reign. Since then His Royal Highness has been present at all but four of the regular

meetings of the Committee, dealing with subjects that have ranged from new circulating coins to official

medals, from commemorative coins to government seals. Probably the greatest demands were placed on

His Royal Highness at the time of decimalisation, when he skilfully guided the Committee towards the adoption of the series of reverse designs still in use today.

Throughout these many years His Royal Highness presided over the Committee with good humour and tact, proving himself an enormously effective chairman in securing consensus among the conflicting aesthetic judgements of members as distinguished as Lord Clark and Dame Elisabeth Frink, Sir John Betjeman and Sir Hugh Casson. It was therefore with great sadness that the Committee learned of the wish of His Royal Highness to retire and to bring to an end a

truly remarkable period of service.

To acknowledge his outstanding contribution a special lunch was arranged to follow the meeting of the Committee at St James's Palace on 24 November. In the presence of invited guests, who included no fewer than seven ex-Chancellors of the Exchequer as well as former members of the Committee, the Rt Hon Gordon Brown, MP, Chancellor of the Exchequer, publicly thanked His Royal Highness for his wise counsel and leadership over such an extended period.

At the conclusion of the lunch the longest serving member of the Committee, Mr John Porteous, eloquently acknowledged the debt that members felt to His Royal Highness, emphasising that he had been the captain and not merely the figurehead. He spoke, too, of the zest and humour that had enlivened meetings and of the encouragement to respond to imaginative ideas and to innovation. On behalf of the Royal Mint he then presented His Royal Highness with a sculpture by the Mint engraver Robert Evans featuring the portrait of His Royal Highness and reproductions of some of the coins designed during his Presidency.

Meetings

The lunch in honour of His Royal Highness had been preceded earlier that morning by the Committee's first formal meeting of the year and the last to be held with His Royal Highness in the chair. Miss Rosalind Savill and Sir Peter Michael attended for the first time since their appointment in March 1999.

At this meeting the Committee considered how best to proceed with the preparation of designs for two new commemorative coins for 2001, one a crown marking the centenary of the death of Queen Victoria and the end of the Victorian era and the other a two-pound coin celebrating the first long-distance wireless transmission by Marconi. In both cases the Committee decided on a very limited competition involving in each



A medal by the late John Lobban, prepared for the seventieth anniversary of the Advisory Committee in 1992, provided the theme for the lunch at St James's Palace on 24 November.



LUNCHEON
 St. James's Palace
 Wednesday 24 November 1999

ROYAL MINT
**ADVISORY
 COMMITTEE**



To mark the retirement of
 His Royal Highness
 The Prince Philip, Duke of Edinburgh, KG, KT, OM, CBE
 as President of the
 Royal Mint Advisory Committee
 on the Design of Coins, Medals, Seals and Decorations

12.30 for 1.00pm





Photographs taken at St James's Palace on 24 November, including one of the Advisory Committee at the start of the last meeting to be attended by His Royal Highness.

instance no more than three artists, who would be offered a higher than usual fee to submit drawings in the hope that this, along with a fuller briefing, would encourage them to devote more time for research and the generation of ideas. On the basis of portfolios previously submitted by a number of artists, the Committee then selected those who were to be approached for designs and agreed that in each case an invitation to compete could be extended to a member of the Royal Mint Engraving Department.

The drawings received from these artists were examined when the Committee next met on 30 March 2000, assembling at Goldsmiths' Hall under the acting chairmanship of the Deputy Master. The Committee selected a design for the Victorian memorial crown for recommendation to the Chancellor of the Exchequer and this design is currently being modelled by the artist. For the Marconi two-pound coin the Committee reduced the entries to a short list of three and reaffirmed the decision that it had made at the previous meeting to put these designs out for public consultation before making a final recommendation. This consultation process is still under way, having been launched after the year end.

As well as these two formal meetings, urgency required the reverse design for a fifty pence piece commemorating the 150th anniversary of the Public Libraries Act of 1850 to be dealt with by post. Designs were invited from three artists and from these designs a majority of the Committee favoured a drawing submitted by Mary Milner Dickens showing the façade of a classical library building surmounted by the turning pages of a book. This design subsequently received royal approval.

In addition, the Committee's consideration of designs for the reverse of a crown piece to celebrate the Queen Mother's centenary year was completed with the formal approval of a model by the sculptor Ian Rank-Broadley, FRBS, FSNAD. This outcome, achieved as a result of a limited

competition involving eight experienced portrait sculptors, produced the pleasing combination from a stylistic point of view of an obverse and reverse designed by the same artist, the current coinage portrait of Her Majesty The Queen being also the work of Mr Rank-Broadley.

Membership

The Chancellor of the Exchequer has announced that, as a tribute to the special contribution made by His Royal Highness, a successor will not be sought for the post of President. Instead a Chairman will be appointed for a fixed term, with the Deputy Master acting in the interim as Chairman, a title he has always held though in practice conceding the chair to His Royal Highness.

One new member joined the Committee during the year, when, in February, the Rt Hon Lord Camoys GCVO, the Lord Chamberlain, was appointed by Her Majesty The Queen on the recommendation of the Chancellor of the Exchequer.

MEMBERSHIP OF THE COMMITTEE

(with date of appointment)

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

Mr John Porteous, OBE July 1968

Mr Michael Harvey February 1991,
re-appointed January 1998

Mrs Philomena Davidson Davis March 1994

Mr Mark Jones March 1994

Mr Peter Gwynn-Jones, CVO January 1996

Mr Stuart Devlin, AO, CMG January 1998

Miss Katharine Eustace January 1998

Sir Peter Michael, CBE March 1999

Miss Rosalind Savill, CBE March 1999

The Rt Hon Lord Camoys, GCVO February 2000

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. Revised working patterns and pay structures have been introduced for industrial employees during 1998-99, while non-industrial employees have a performance related pay structure specific to the Royal Mint.

Financial Objective

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

‘(a) to manage the funded operations so that the revenue of the fund is not less than sufficient, taking one year with another, to meet outgoings which are

properly chargeable to revenue account; and

(b) to achieve such further financial objectives as the Treasury may from time to time, by minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with Treasury concurrence) to be desirable of achievement.’

The Chancellor of the Exchequer has yet to determine any further financial objective desirable of achievement by the Royal Mint for the period from 1 April 2000.

Financial Review

Sales in the year of £95.6 million include £52.1 million (54%) to overseas customers.

The modified historical cost operating profit for the year before interest was £0.3 million, representing a return of 0.5% on average net assets at modified historical cost and 0.4% on total sales value.

A dividend of £0.5 million was paid to the Consolidated Fund on 30 June 2000 and £0.168 million transferred to reserves.

Capital expenditure of £6.1 million was incurred in the year.

Derivative financial instruments

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

Metal prices

A significant proportion of the Royal Mint's raw materials consists of 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 2000. 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 Royal Mint has experienced no disruption or malfunction since the turn of

the year arising from its own computer system or equipment with embedded date-reliant computer chips.

The lack of disruption from its own systems and equipment is attributable to the analysis of risks and consequential modifications to or replacement of suspect hardware and software carried out during 1998 and 1999.

The total cost to complete modifications to our computer hardware and software was not significant and was subsumed within our ongoing programme of upgrading our computer hardware and software systems.

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 in all respects.

The policy continued of employing and training disabled persons, wherever their aptitudes and abilities allow. Where employees become disabled we endeavour to continue their employment, provided there are jobs which they can do, bearing in mind not only their handicap or disability but their experience and skills.

The number of people employed at 31 March 2000 was 1126.

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

Roger Holmes

Accounting Officer
3 July 2000

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, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to:

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

The Treasury has appointed the Chief Executive of the Royal Mint as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in *Government Accounting*.

Corporate governance - Statement on the system of internal financial control

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

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

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

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

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

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

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

Roger Holmes
Accounting Officer
3 July 2000

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

I certify that I have audited the financial statements on pages 28 to 36 under the Government Trading Funds Act 1973. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and stocks and the accounting policies set out on page 32.

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

As described on page 26, the Royal Mint and Chief Executive are responsible for the preparation of the financial statements 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 a fair view and are properly prepared in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Royal Mint has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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

I review whether the statement on page 26 reflects the Royal Mint's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of Opinion

I conducted my audit in accordance with 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 2000 and of the profit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Trading Funds Act 1973 and directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
6 July 2000

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

Operating Account for the year ended 31 March 2000

	Notes	1999-2000 £'000	1998-99 £'000
TURNOVER	2	95,573	91,357
Change in stocks of finished goods and work in progress		(3,043)	(948)
Own work capitalised		120	248
Other operating income		129	243
Raw materials and consumables		(39,950)	(31,083)
Other external charges		(7,022)	(12,522)
Staff costs	4	(27,915)	(24,288)
Depreciation and other amounts written off tangible fixed assets	6	(4,259)	(3,498)
Other operating charges		(13,288)	(13,688)
		<u>(95,228)</u>	<u>(85,536)</u>
OPERATING PROFIT	3	345	5,821
INTEREST RECEIVABLE AND SIMILAR INCOME		460	595
INTEREST PAYABLE AND SIMILAR CHARGES	5	<u>(137)</u>	<u>(127)</u>
PROFIT FOR THE YEAR		668	6,289
DIVIDEND PAYABLE TO THE CONSOLIDATED FUND		<u>(500)</u>	<u>-</u>
RETAINED PROFIT FOR THE YEAR		<u><u>168</u></u>	<u><u>6,289</u></u>

No activities have been discontinued during the year.

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	1999-2000	1998-99
	£'000	£'000
Profit for the year	168	6,289
Unrealised surplus on revaluation of property	2,712	1,016
Unrealised surplus/(deficit) on revaluation of plant and machinery	92	(439)
Unrealised surplus/(deficit) on revaluation of uncommitted metal	488	(393)
Total recognised gains and losses relating to the year	<u>3,460</u>	<u>6,473</u>

HISTORICAL COST PROFITS AND LOSSES	1999-2000	1998-99
	£'000	£'000
Reported profit for the year	168	6,289
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	193	238
Historical cost profit for the year	<u>361</u>	<u>6,527</u>

MOVEMENTS IN CAPITAL AND RESERVES (Government Funds)

	Public Dividend Capital	Revaluation Reserve	Profit and Loss Account	Total
	£'000	£'000	£'000	£'000
As at 1 April 1999	7,000	2,992	56,678	66,670
Movements in the year:				
Revaluations				
Fixed Assets	-	2,804	-	2,804
Stocks	-	488	-	488
Profit for the year	-	-	168	168
Reclassification of distributable reserves	-	(193)	193	-
As at 31 March 2000	<u>7,000</u>	<u>6,091</u>	<u>57,039</u>	<u>70,130</u>

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

Balance Sheet as at 31 March 2000

	Notes	2000	1999
		£'000	£'000
FIXED ASSETS			
Tangible Assets	6	49,126	44,462
CURRENT ASSETS			
Stocks		45,818	43,217
Debtors		9,558	10,329
Cash at bank and in hand		5,077	3,458
		<u>60,453</u>	<u>57,004</u>
CREDITORS			
Amounts falling due within one year		(39,134)	(34,506)
NET CURRENT ASSETS	7	<u>21,319</u>	<u>22,498</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>70,445</u>	<u>66,960</u>
FINANCED BY:			
CREDITORS			
Amounts falling due after one year	8	315	290
CAPITAL AND RESERVES			
Public dividend capital		7,000	7,000
Revaluation Reserve		6,091	2,992
Profit and Loss Account		57,039	56,678
		<u>70,130</u>	<u>66,670</u>
		<u>70,445</u>	<u>66,960</u>

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

Roger Holmes
Accounting Officer
3 July 2000

Cash Flow Statement for the year ended 31 March 2000

	Notes	1999-2000 £'000	1998-99 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	(a)	5,860	7,700
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		437	627
Interest paid		(142)	(153)
		<u>295</u>	<u>474</u>
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(6,536)	(13,656)
EQUITY DIVIDENDS PAID		-	(7,000)
CASH (OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES		(381)	(12,482)
MANAGEMENT OF LIQUID RESOURCES			
Decrease in National Loans Fund Deposit		-	12,000
CASH (OUTFLOW) BEFORE FINANCING		(381)	(482)
FINANCING			
NLF Short term loan received		2,000	-
INCREASE/(DECREASE) IN CASH IN THE YEAR	(b)	<u>1,619</u>	<u>(482)</u>
 (a) RECONCILIATION OF OPERATING PROFIT WITH THE NET CASH INFLOW FROM OPERATING ACTIVITIES		1999-2000 £'000	1998-99 £'000
Operating profit		345	5,821
Depreciation charge		4,259	3,498
Movements in			
Stocks		(2,113)	4,401
Debtors		794	(5,327)
Creditors (excluding dividend)		2,575	(693)
		<u>5,860</u>	<u>7,700</u>
 (b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS		1999-2000 £'000	1998-99 £'000
Increase (Decrease) in cash in the year		1,619	(482)
Cash (outflow) from (decrease) in liquid resources		-	(12,000)
Increase in borrowings		(2,000)	-
Movement in net funds		(381)	(12,482)
Net funds at 1 April		3,458	15,940
Net funds at 31 March		<u>3,077</u>	<u>3,458</u>
 (c) ANALYSIS OF NET FUNDS			
Cash at Bank and in hand		5,077	3,458
NLF Short term loan		(2,000)	-
		<u>3,077</u>	<u>3,458</u>

Notes to the Accounts

Note 1

PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Accounting

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

(b) Turnover

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

(c) Value Added Tax

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

(d) Tangible Fixed Assets

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

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

No account is taken of the Royal Mint collection of coins and medals which is of inestimable value.

(e) Depreciation

Depreciation charged represents the value to the business of fixed assets consumed in the year and is provided on the value of fixed assets on a straight line basis over their expected useful lives.

The principal rates used for this purpose are:

	%
Buildings	2
Plant and machinery	5-10

No depreciation is provided in respect of land.

(f) Stocks and Work in Progress

Stocks and work in progress are valued at the lower of cost (or net current replacement cost where materially different) and estimated net realisable value. Cost consists of direct materials, labour and production overheads. The net current replacement cost of the metal element of stocks and work in progress less commitments to and advances received from customers has been revalued on the basis of London Metal Exchange prices ruling at 31 March 2000. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from its existing state to a finished condition. Provision is made for obsolescent, slow moving and defective stocks.

(g) Foreign Exchange

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

(h) Insurance

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

(i) Pension Scheme

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

Note 2**TURNOVER**

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

	1999-2000 £'000	1998-99 £'000
United Kingdom	43,444	33,714
Overseas	52,129	57,643
	<u>95,573</u>	<u>91,357</u>

Note 3**OPERATING PROFIT**

Operating profit is stated after charging:

	1999-2000 £'000	1998-99 £'000
Sub-contracted work and semi-processed material	6,916	12,438
Audit fees	62	67
Hire of plant and machinery	106	84

Note 4**REMUNERATION AND EMPLOYMENT**

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

	Age	Remuneration including performance pay £'000	Real Increase in pension @ 60 £'000	Total accrued pension @ 60 £'000
Executive Directors				
Roger Holmes Chief Executive	52	80-85	0-2.5	20-25
Keith R Cottrell Director of Sales	51	60-65	0-2.5	5-10
Allan E Pearce Director of Human Resources and Corporate Affairs	50	55-60	0-2.5	0-5
Graham J Davies Director of Finance	54	50-55	0-2.5	15-20
Alan Wallace Director of Collector Coin	56	50-55	0-2.5	25-30
Geoff Payne Director of Engineering Services	56	50-55	0-2.5	20-25
Gareth Goulden (Retired 31.5.99) Director of Circulating Coin Production	54	20-25	0-2.5	20-25

Remuneration includes salary, performance pay and all other benefits.

In addition the Chief Executive is reimbursed his travel and subsistence expenses for travel between the Royal Mint's London office and Llantrisant. These expenses are subject to income tax and the tax is paid by the Royal Mint. The expenses (gross of tax) in respect of the year ended 31 March 2000 were £15,552.

Included in Mr Goulden's salary is a payment made in lieu of notice. His pension has been enhanced to age 60 and provision included in the accounts for the future payments.

Non-Executive Directors	Age	Fees (£'000)
Gisela Burg CBE	60	5-10
Sidney Taylor	65	5-10
Lyndon Haddon	58	5-10
David Stark (Appointed 1 March 2000)	60	0-5
Jan Smith (Appointed 1 March 2000)	52	0-5

Note 4 (continued)

TOTAL STAFF COSTS	1999-2000 £'000	1998-99 £'000
Wages and salaries	23,748	20,665
Social security costs	1,758	1,587
Other pension costs	2,409	2,036
	<u>27,915</u>	<u>24,288</u>
AVERAGE NUMBER EMPLOYED	1999-2000	1998-99
Production	863	777
Sales and Marketing	71	68
Administration	150	149
	<u>1,084</u>	<u>994</u>

The total number of persons employed at 31 March 2000 was 1,126.

Note 5

INTEREST PAYABLE	1999-2000 £'000	1998-99 £'000
On loans repayable within five years	<u>137</u>	<u>127</u>

Note 6

TANGIBLE FIXED ASSETS	Freehold land and Buildings £'000	Plant and Machinery £'000	Total £'000
Valuation			
At 1 April 1999	13,393	62,964	76,357
Additions	199	5,920	6,119
Disposals	-	(738)	(738)
Revaluation	2,408	678	3,086
At 31 March 2000	<u>16,000</u>	<u>68,824</u>	<u>84,824</u>
Depreciation:			
At 1 April 1999	-	31,895	31,895
Charge for year	304	3,955	4,259
Disposals	-	(738)	(738)
Revaluation	(304)	586	282
At 31 March 2000	<u>-</u>	<u>35,698</u>	<u>35,698</u>
Net book value at 31 March 2000	<u>16,000</u>	<u>33,126</u>	<u>49,126</u>
Net book value at 1 April 1999	<u>13,393</u>	<u>31,069</u>	<u>44,462</u>

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

Land and buildings are stated at open market current use valuation at 31 March 2000 or depreciated replacement cost as at that date in the case of buildings of a specialist nature. This valuation was provided by Chesterton International Property Consultants plc in accordance with the guidelines issued by the Royal Institution of Chartered Surveyors.

Note 6 (continued)

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

	Freehold land and Buildings £'000	Plant and Machinery £'000	Total £'000
At 31 March 2000			
Cost	15,757	57,684	73,441
Accumulated Depreciation	(3,657)	(25,269)	(28,926)
Net book value at 31 March 2000	<u>12,100</u>	<u>32,415</u>	<u>44,515</u>
Net book value at 1 April 1999	<u>12,205</u>	<u>30,257</u>	<u>42,462</u>

Note 7

NET CURRENT ASSETS	£'000	2000 £'000	1999 £'000
Current assets			
Stocks			
Metal stocks	28,379		20,667
Work in progress (excluding metal)	6,780		4,304
Stores and packing materials	2,225		2,115
Finished goods	<u>8,434</u>		<u>16,131</u>
		45,818	43,217
Debtors			
Trade debtors	8,000		10,055
Other debtors	1,162		192
Prepayments and accrued income	<u>396</u>		<u>82</u>
		9,558	10,329
Cash			
Cash at bank	5,076		3,451
Cash in hand	<u>1</u>		<u>7</u>
		<u>5,077</u>	<u>3,458</u>
Current Assets		60,453	57,004
Creditors: amounts falling due within one year			
NLF Short Term Loan	(2,000)		-
Trade creditors	(26,082)		(19,100)
Other creditors	(541)		(443)
Payments received on account	(7,981)		(13,635)
Taxation and social security	(769)		(610)
Accruals and deferred income	(1,261)		(718)
Dividend payable to the Consolidated Fund	<u>(500)</u>		<u>-</u>
		<u>(39,134)</u>	<u>(34,506)</u>
NET CURRENT ASSETS		<u>21,319</u>	<u>22,498</u>

Metal stocks of £28.379 million (1999: £20.667 million) include a base stock of copper and nickel with a net realisable value of £3.223 million at 31 March 2000 (1999: £2.735 million) and £18.645 million (1999: £12.146 million) in respect of precious metal held for third parties and reflected in trade creditors. The current replacement cost of other stocks and work in progress is not significantly different from the balance sheet values.

Note 8	2000	1999
CREDITORS: amounts falling due after one year	£'000	£'000
Pension commitments	<u>315</u>	<u>290</u>

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

Note 9

PENSION COSTS

All employees of the Royal Mint are civil servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. For 1999-2000 contributions of £2.409 million were paid to the Paymaster General at rates determined from time to time by the Government Actuary and advised by the Treasury. For 1999-2000 these rates were between 12% and 18.5%.

Pension benefits are provided through the Principal Civil Service Pension Scheme. This is a statutory scheme which provides benefits on a 'final salary' basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to 3 years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. Pensions increase in payment in line with the Retail Price Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Note 10	2000	1999
CAPITAL EXPENDITURE APPROVED	£'000	£'000
Commitments in respect of contracts	<u>1,767</u>	<u>3,142</u>

Note 11

RELATED PARTY TRANSACTIONS

The Royal Mint is an Executive Agency and Trading Fund.

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

In addition the Royal Mint has had a number of transactions with other Government Departments. Most of these transactions have been with the Ministry of Defence and Home Office.

During the year none of the Board Members, members of key management staff or other related parties has undertaken any transactions with the Royal Mint.

Note 12

NUMERICAL DISCLOSURES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

Hedges

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

- metal price risk
- currency risk.

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

The forward exchange contracts which were outstanding at 31 March 2000 amounted to £7.2 million (1999: £17.3 million). If these contracts were translated at the year-end rate, there would have been a loss of £0.3 million (1999: £0.6 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 2001.



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