



ANNUAL REPORT AND ACCOUNTS

2002-2003

Chairman's Introduction

I am delighted to report this year (the 40th of our existence) that in July 2002 the HLF awarded a Stage 1 pass to the Museum's *John Fieldhouse Building* project, and our earlier project, *Holland 1*, once again HLF backed, won the prestigious Pilgrim Trust Conservation Award for 2002, a feat of which we are justly proud.

Whilst major projects absorb much of the Director and his Deputy's time, I have been very pleased with the progress made in all other areas of the Museum's business. Education activities in particular, both formal and informal, have flourished under our energetic Education Officer, Mrs Jackie Edelman, and we are reaching a much wider audience than ever before. The continuing high level of satisfaction expressed by our visitors during a recent self-completion survey indicates that our presentational formula, underpinned by an enthusiastic and loyal staff, is about as good as it can be. We owe much in this respect to our volunteer guides, who bring the *HMS Alliance* experience to life for both young and old. Other examples of continuing progress can be seen all around the Museum's site; The *Holland 1 Gallery* has been completely de-snagged; new signs to enhance visitor orientation and information have been added; and a cafeteria annex to improve visitor comfort has been developed. This space has also lent itself to mounting photograph based temporary exhibitions, and the latest, *Free a Man for Sea*, which pays tribute to the part played by the WRNS in support of the RN Submarine Service, received favourable reviews in the national press.

The submarine story is an enduring one that fascinates many elements of society, and this has been reflected by growing demands for the Museum's expertise by the media, most notably television that has seen an explosion in history related programmes. The Director has travelled as far afield as Boston USA to deliver his expert knowledge, and the services provided through our archives and website has increased significantly.

Numbers however are down by a disappointing 16% in comparison with our excellent Centenary Year (reasons for this are dealt with in the body of the report) but despite the loss of visitor income the finances of the Museum remain healthy, and a further boost to the Reserves was achieved through a significant Gift-Aid donation from the Giftshop. The continuing support of our wonderful Society of Friends also allowed us to complete a number of projects that would otherwise have been beyond our resources. In addition we have been able to maintain our charitable donation to the Royal Naval Benevolent Trust to assist submariners and their dependents in need.

Globally, the climate for Museums in the Portsmouth area remains chilly, however the legs of the *Spinnaker Tower*, the Centrepiece of the Millennium Commission backed 'Renaissance of Portsmouth Harbour' project can at last be seen to be growing. Its completion should cast a warmer glow over the outlook of those of us who anticipate its potential in turning the Harbour into a 'visitor destination', and should encourage the introduction of the promised waterbus network to promote cross-harbour footfall. Our evocative thematic *Fieldhouse Building* will be a real 'eye-catching' enhancement to the overall waterfront attraction.

I look forward to the coming year with great confidence, and have a genuine sense of anticipation in advancing the great progress that the Museum has made during the last forty years. After *Fieldhouse* we must tackle *HMS Alliance*, another 'Core Collection' ship, and then (finally) to improve our Weapons Gallery. Once that is complete in 2006 then I believe that we will have fulfilled the dreams of those who started the Museum in a single metal cabinet in a room over the Submarine Church in *HMS Dolphin*.

Vice Admiral Sir Roy Newman KCB JP DL
Chairman of Trustees

REPORT OF THE TRUSTEES

Introduction

Many of the issues that relate specifically to the governance and oversight of the Museum's affairs are contained in the Foreword to the Consolidated Annual Accounts, which is attached as an Appendix to this report.

Trustees' Health and Safety Policy

The Trustees' statement of general policy is:

- To provide adequate control of the health and safety risks arising from our work activities.
- To consult with our employees on matters affecting their health and safety
- To provide and maintain safe plant and equipment
- To ensure safe handling and use of substances
- To provide information, instruction and supervision for employees
- To ensure all employees are competent to do their tasks, and to give them adequate training
- To prevent accidents and causes of work related to ill health
- To maintain safe and healthy working conditions
- To review and revise this policy as necessary at regular intervals

Health and Safety matters are regularly addressed by the Audit Committee through their review of the Risk Management Register.

The Society of Friends of the Royal Navy Submarine Museum

The Museum has continued to benefit from the support of an active Society of Friends. During the year grants totalling £21,873 were received which contributed to the following improvements to the Museum:

- (a) acquisitions for the Collections
- (b) archive storage materials

REVIEW OF THE YEAR'S ACTIVITIES
By
Commander Jeff Tall OBE RN (Museum Director)

Introduction

The Museum celebrates the 40th year of its foundation in September 2003.

Strategic background

At the strategic level one matter that has been greatly exercising the minds of the Boards of the four Museums of the Royal Navy is how we can work more cohesively to better serve the heritage of the White Ensign. The DCMS/MoD sponsored *Borg Report* in early 2002 established the vision of a National Museum of the Royal Navy, however structural and financial restraints despatch such a vision to a distant horizon, if not totally out of sight. Nevertheless the report generated much debate and provided the impetus for the groundwork to be undertaken for the establishment of a Naval Heritage Committee and the production of a Defence Council Instruction on the role of the Museums both of which, it is hoped, will come to fruition during the coming year.

Review of Performance

Achievements 2002/03

- Mounted *L24* periscope in Weapons Gallery
- Resited *Argonaut* into Diving Gallery
- Completed signposting project for whole site
- Pedestrianised the site
- Provided new Cafeteria Annex
- Provided new Guides Room
- Published *Submarines and Deep Sea Vehicles*
- Mounted *Spies, Saboteurs and Scouts* exhibition
- Developed Haslar Avenue interpretation
- Enhanced interpretation of *Holland 1 Gallery*
- Inaugurated *HMS Alliance* Conservation Project
- Outlined conservation plan for *HMS X24*
- Purchased Marquee for on-site family events
- Received HLF Stage 1 approval for *Fieldhouse Project*
- Awarded the prestigious Pilgrim Trust Conservation Prize for 2002
- Produced Publication Scheme
- Negotiated the rights for the *Submarine* Video (Channel Five TV)
- Published Sir Arthur Hezlet's *History of British and Allied Submarine Operations in WWII*
- Mounted temporary exhibition *Free a Man for Sea*
- Completed H&S 'risk assessments' for whole site
- Mounted temporary exhibition *The Jolly Roger*
- Completed additional road signage scheme.

Visitor numbers

Visitor numbers fell by 15% in comparison to the Service's Centenary year, however this is not regarded with total gloom because the underlying trend of paying visitors continues upwards. Factors affecting FY02/03 results included the absence of an Easter Break during the year; the Soccer World Cup; the Queen's Jubilee; and finally the Director of Naval Recruiting's decision to divert sponsored cadets from RNSM (which involves a boat trip), to *Action Stations* within the Historic Dockyard (which does not).

This single move, which it is hoped to reverse in the future, accounted for 5% of the visitor deficit. It is pleasing to note that 41% of the Museum's visitors were children.

Visitor satisfaction

A self-completion visitor survey was conducted by the Southern Tourist Board during the year. The results confirmed the profile demonstrated during the solicited visitor survey last year. Significant results were:

- 97% of respondents thought that the **overall enjoyment of the visit for adults** was either good (31 %) or very good (66%). 3 % thought it average.
- 88% of respondents thought that the **overall enjoyment of the visit for children** was either good (37%) or very good (51 %). 11 % thought it average.
- 93% of respondents thought that the **overall value for money** of their visit was either good (34%) or very good (59%). 7% thought it average.

The Collections

The following was achieved:

- Established audio/video catalogue
- Completed catalogue of written material in need of remedial conservation
- Completed cataloguing of glass plate negatives and lantern slides
- Completed cataloguing of 'large print' and 'album' collection
- Completed storage of prints in archival sleeves
- Completed documentation of artefacts and large objects
- Produced environmental control plan for the artefact collection
- Completed condition survey to identify objects at risk

The Pilgrim Trust Conservation Award for 2002

The Museum was proud to be the winner of the Pilgrim Trust Award for 2002 for its *Holland 1* project.

David Landau, one of the judges, said at the award ceremony

'This was a most remarkable project. Remarkable because of its ambition, remarkable because of its honesty, remarkable because of its results. Its ambition was boundless: nobody had ever attempted to remove chlorides from a 120-tonnes metal structure before, nobody had thought of building a huge tank around such an object, nobody had ever patiently carried out such a stabilisation programme for five years, nobody had ever had to build a museum around a submarine while all this was happening. Remarkable because of its honesty, unusual in many projects where previous attempts at conservation had failed: no bones were here made of the fact that the open air display of the submarine for eleven years had almost succeeded in its destruction, nor any cover-up was tried to hide the horrendous marks left by the decision to cut the submarine in three parts, because that had seemed convenient at one time. Remarkable because of its results: the gallery in which is shown is architecturally distinguished; she looks there amazing and beautiful, even if deeply scarred; the conditions are perfect for her survival, even when hordes of visitors come and see her, bringing with them much harmful humidity - the climatization is extraordinarily successful, the story is well told, and makes the visit exciting: through the piped recording of original sounds and voices, one feels as if one is immersed in the life onboard. I thought I would never want to get into a submarine, but once inside *Holland 1*, I did not want to leave.'

Education

In addition to building up the visiting school base, all of which received positive feedback with the promise of a re-visit, the following were the highlights:

- Performance by A Level Students of Submarine Drama covered by *BBC* and *Times Education Supplement*
- Grant of £500 from Business and Education Partnership to pay for Special Needs Teachers to assist in developing programmes for Special Needs Students
- Summer event from leading science author (*Horrible Science*) Nick Arnold was a sell out.

Publications

The Museum had the privilege of publishing *The History -of British and Allied Submarine Operations during WWII* by Vice Admiral Sir Arthur Hezlet KBE CB DSO* DSC. Described by reviewers as the 'ultimate' reference book on the subject, it is a 'must read' for any maritime historian.

Museum staff have contributed significantly to a number of submarine books and periodicals, most notably the *World War II Experience* and the Dorling Kindersley *Submarines*.

Media matters

With history replacing gardening and house make-overs, as the most popular subject on TV, there is a heavy demand on Museum Staff's time and expertise for submarine related programmes, particularly for The History Channel and The National Geographic Channel. As an example, the Director attended the production of a *History in the Making* programme in Boston, USA that involved building a replica of Bushnell's *Turtle* (1776) from scratch, and recently participated in the BBC2 programme *Science Shack* that addressed the challenges of living underwater.

Website review

The website continues to grow in popularity with 165,500 virtual visitors over the year. The Museum has also recently bought the domain name www.royalnavy.submarine.museum.

Focus for Veterans

The Museum plays an important part as a focus for Veteran activity, a function that is presently undervalued by the Royal Navy, although there are positive and encouraging signs that this attitude is changing. The Museum Secretary (WOCoxn Colin Way MSM) leads the 'Dolphin' Branch of the Submariners Association, while the Museum Director is the Hon Secretary/Treasurer for the Submarine Officers Life Members Association. Between them they author and distribute newsletters and arrange reunions and fulfil the pastoral function of keeping people in touch.

Disability matters

The Museum has recently been granted an *Excellent Access Award* by the Gosport Access Group and Disability Forum. We continue to work hard at improving our services still further.

Investment for the future

Recognising its responsibilities for its collection care and being the 'public' face of the Royal Navy the Museum is currently undertaking the following projects:

- *The John Fieldhouse Building*. This project, which received a Stage 1 HLF pass in July 2002, has had £1.95M set aside. Its primary objective is to provide an environmentally sound display area for

the historic mini-submarine *HMS X24*; its secondary objective is to provide a *Submarine and Science Gallery*. The building is expected to open in January 2005.

- *The HMS Alliance Project*. This National Historic Ships Committee 'Core Collection' submarine is in need of a refit after being on display in an hostile marine environment for over twenty years. In essence the hull remains in excellent shape, however the less robust casing and control surfaces are in need of long-term preservation. The Museum has engaged the International Consultant Engineers, Scott Wilson, to work up a remedial programme of work and develop a long-term conservation plan before applying to the HLF for financial support for the project (2005). Some cosmetic and essential repair work will be undertaken in the shorter term.
- *Programme of Works*. The Museum has identified a further fifteen high impact projects which involve care of its collection and improving access (eg displaying the *Repulse* propeller vertically, mounting its *Tomahawk* missile on a pedestal, conserving *LR3* (Submarine Rescue Vessel) and *Biber* (German mini) and putting them under cover in a purpose built structure). The cost estimate is £100,000, which the Museum will be required to find from its reserve/operating budget.

Free Entry

Unlike the RAF Museum, Hendon and National Army Museum, Chelsea, for a variety of reasons Royal Navy sponsored Museums continue to levy an entrance charge. Despite the obvious risks, but in line with Government objectives for Museums, the Board of Trustees have instituted a policy of free entry for school and youth groups in organised parties to encourage the widest possible access to the Museum.

Financial Review

Income

Grant-in-Aid for operating (1%) and staff costs (2.5%) increased by a total of 3.5% (£16.5k). Offset against the increase was the non-payment of the annual acquisition grant (£16.5k). When combined with a drop of income through the gate of £36k, it added up to a relatively lean year. Fortunately a generous Society of Friends provided grants that enabled the Museum to acquire valuable artefacts for the enhancement of the Collection (£13k), and the Gift Shop transferred a significant sum (£42k) by Gift Aid through its activities during the Service's Centennial Year.

Expenditure

As ever, the largest slice of expenditure lies with Staff costs. The Museum operates a policy of affordability with respect to staff emoluments, and whilst staff benefits (when compared with sister institutions) are significantly diminished for comparable responsibilities, they are nevertheless adequate, and most importantly, sustainable. In addition to an 'across the board' increase in staff pay of 2.5% (in line with the GiA enhancement), the Trustees awarded a non-consolidated bonus of 2% to all staff to reflect the hard work that went into making the Centennial Year (2001) the success that it was from the Museum's point of view.

Other expenditure was in line with budget and expectation.

Surplus

A surplus of approximately £17k was generated and added to the Reserve.

Current state of reserves

The Operating Reserve stands at £209,000 (see *Investment for the Future* above).

Anticipated performance 2003/04

The following are worthy of note

- (a) Visitor numbers are forecast to be 70,000 for the year
- (b) Entry prices have been increased to £4.50 (+50p) for an adult, and £12.00 (+£1) for a family ticket of 2 adults and four children. Free entry has been extended to organised youth groups (cubs/scouts)
- (c) Many projects will be progressed (see Investment for the Future)
- (d) Pay increases will be limited to 2% with a review of a non-consolidated bonus being paid on performance and affordability. This compares to a Civil Service settlement in excess of 4.5%.
- (e) £17k will be paid over through Gift Aid from the Gift Shop, and a further £2k will be paid off from the Debenture owed to the Trustees, reducing it to £16k.
- (f) The operating surplus (negat project expenditure) is expected to be in the region of £10k.

ROYAL NAVY SUBMARINE MUSEUM
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2003
Charity Number 1068419

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31ST MARCH 2003

CONTENTS

Charity Information	1
Foreword	2 to 7
Statement of Board of Trustees and Director's Responsibilities	8
Statement of Internal Control	9 and 10
Certificate and Report of the Comptroller and Auditor General	11 and 12
Consolidated Statement of Financial Activities	13
Consolidated balance sheet – Group	14
Balance sheet – Charity only	15
Cashflow statement	16
Notes to the Financial Statements	17 to 30
Accounts Direction	31 and 32

ADDRESS OF THE CHARITY

The Royal Navy Submarine Museum
Haslar Jetty Road
Gosport
Hampshire
PO12 2AS

NAME AND ADDRESSES OF OTHER RELEVANT ORGANISATIONS

Accountants

Compass

Auditors

National

Solicitors

Blake L

Bankers

Lloyds T

ROYAL NAVY SUBMARINE MUSEUM FOREWORD TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2003

Introduction

The consolidated accounts for the Royal Navy Submarine Museum are presented for the financial year ended 31st March 2003. The Group comprises the main charity and its wholly owned subsidiary, Submarine Giftshop Limited. The accounts are prepared in accordance with a direction given by the Secretary of State for Defence under Section 30(3) of the National Heritage Act 1983 and law applicable to charities in England and Wales.

The Royal Navy Submarine Museum is a Registered Charity with the Charity Commission (reference number 1068419). The governing document of the body is the Trust Deed of 23 January 1998; the Museum's Trustees are incorporated as a body.

History

The Royal Navy Submarine Museum was formed as a modest 'Submarine Branch Collection' under a Deed of Trust dated 11 September 1963. It was registered as a charity on 12 February 1970. Three small rooms were made available for the collection in the submarine base at *HMS DOLPHIN*.

A public appeal was launched in 1978 and a new Deed of Trust for a charity registered as the 'Submariners Memorial' was drawn up in April 1979. The aims of the new Trust covered the preservation and accessibility to visitors of the *Alliance*, the preservation of the collection, held in a new Museum Building adjacent to but outside *HMS DOLPHIN*, and to relieve distress among past and present submariners and their dependants.

Sufficient funds, totalling about £410,000, were raised to enable these aims to be met by 1982. In May 1983, Admiral Sir John Fieldhouse formally opened the new Museum.

In 1985 the Museum became an Executive Non-Departmental Public Body.

In 1998 an appeal was launched to raise funds for the development of the Museum entitled 'The Submarine Centennial Appeal'.

In late 1998 the Museum acquired the use of a redundant building within Fort Blockhouse that enabled it to create a display of its weapons collection, including a Polaris Missile, in a suitable environment for large metallic objects. This was a major step forward in the care of artefacts previously at risk from the elements.

In August 2000 the Heritage Lottery Fund approved a Stage II award of £666,500 for the Museum's *Conservation and Interpretation of Holland 1* project.

In October 2000 the Museum changed the nature of occupation of its land with the Defence Estates Organisation from a 30-day notice licence to a 39 year Lease.

In October 2000 the Museum acquired a further deaccessioned building from Fort Blockhouse that allowed the development of three additional exhibitions. (*Escape, Diving and Attack*).

In November 2000 it was confirmed that *HMS Alliance* and *Holland 1* were included in the prestigious *National Core Collection* drawn up by the National Historic Ships Committee. Only 49

vessels have been accorded this pre-eminent status. *HMS X24*, the Museum's other historic submarine, although not meeting the criteria for weight (40 tons), was confirmed as a member of the *Historic Fleet*.

In February 2001 the Museum achieved Phase II Registration with Re:Source.

In May 2001 The Countess of Mountbatten formally opened the *Holland 1 Exhibition*.

In October 2001 a bid was submitted to HLF for support for the *Fieldhouse Building* project.

In May 2002 the conservation project for *HMS Alliance* was inaugurated.

In July 2002 HLF awarded the Museum a Stage 1 Pass for *The John Fieldhouse Building* project

In November 2002 the Museum won the prestigious Pilgrim Trust Conservation Award for 2002 in recognition of its *Holland 1* project.

Mission of the Museum

The Mission of the Museum, which is in accordance with that agreed for the four Naval museums sponsored by the Ministry of Defence, and which is given formal basis in a Defence Council Instruction, is:

1. To provide an effective and accessible repository, both now and in the future for the heritage of the Submarine Branch of the Royal Navy and raise public awareness of the Royal Navy Submarine Service.
2. To encourage scholarship and research into the history of the Royal Navy Submarine Service, and make the product of this scholarship available through publications and lectures as a means of nurturing the ethos of the Service.
3. To provide an educational resource for the community, with particular reference to children in relation to the National Curriculum.

In pursuit of their aims the Trustees act in accordance with a Code of Conduct based on guidance given by the Committee on Standards in Public Life and the seven principles endorsed by HM Government.

Objectives of the Museum

The Declaration of Trust declares that the Museum exists for the benefit of the public and for the purpose of educating the public in naval and social history and other matters relating to the defence of the realm and in particular:

1. To maintain and manage a public museum and library of all aspects of Submarine endeavour.
2. To preserve, promote and assist in the display, understanding and education of the public of the Submarine Collection and all other property, objects, artefacts and others having relevance to the history of the Submarine Service of the Royal Navy forming the contents of the Museum from time to time.

3. To uphold the traditions of the Submarine Service of the Royal Navy; to perpetuate and commemorate its deeds; to honour and preserve the memory of those who participated in the service and to act as keeper of the 'Regimental Heritage of the Submarine Service'.
4. To relieve distress or need among past and present members of the Submarine Branch of the Royal Navy and their dependants.

Trustees

The Royal Navy Submarine Museum is governed by a Board of Trustees under the chairmanship of Vice Admiral Sir Roy Newman KCB JP DL. The Museum is a registered charity within the meaning of the Charities Act 1993, which places on Trustees the responsibility for the effective and economical management of the Trust and the stewardship and care of the collections.

Trustees are appointed to the Board in strict accordance with the guidance laid down by the Office of the Commissioner for Public Appointments. This procedure includes the obtaining of nominations from a variety of sources, including advertising and liaison with the Public Appointments Unit, the vetting of nominations by a panel normally comprising the Chairman of Trustees, a senior civil servant from the sponsoring Department (MoD) and an independent member. Prospective Trustees are normally interviewed by a panel of the Trustee body. The sponsoring department within the MoD, Naval Personnel Secretariat (Plans and Parliamentary) 2, is closely involved in all stages of the selection process. Other than those appointed as ex-officio members of the Board, Trustees are normally appointed for a period of five years. Trustees, at the discretion of the Board, and in consultation with the MoD sponsor, however may be reappointed for a second and final five-year term.

The following served as Museum Trustees during 2002/3:

Vice Admiral Sir Roy Newman KCB JP DL	Chairman
Rear Admiral N Kilgour	Vice Chairman
Rear Admiral A P Hoddinott CB OBE	
Captain TJ Meadows CBE Royal Navy	
Mr RM Webb	
Dr. MC Copp	
Mr T Schadla-Hall	
Mr L Shurmer-Smith OBE	
Councillor M Geddes	Nominated/Hampshire County Council
Mr I Lycett (until 1.12.02)	Nominated/Gosport Borough Council
Councillor HG Burgess (from 23.12.02)	
Mr T Walters BEM	Nominated/Submariners Association

Commander JJ Tall OBE RN is the Museum's Director and Accounting Officer.

Board Meetings were held in July and October 2002 and January and March 2003.

Major matters discussed included: Management Plan and Budget; approval of Annual Report and Accounts; appointment of Trustees; management of Submarine Giftshop Ltd; application for Lottery Funding for the *Fieldhouse Building*; future plans for Museum Development; staff salaries and conditions of service; the H&S plan; the Collections Management Plan; the Education Plan.

Results for the year ended 31st March 2003

Total incoming resources for the Group in 2002-03 amounted to £1,630,408 (2001/02 £1,452,507). Total resources expended amounted to £1,016,682 (01/02 £951,793). After adjustment for notional charges and other recognized gains and losses totaling £102,473 (2001/02 £909,933), the net movement in funds was an increase of £716,199 (2001/02 £1,410,647).

The Group's net assets as at 31 March 2003 amounted to £3,364,238 (31 March 02 £2,648,039).

Changes in Fixed Assets

Movements in fixed assets are shown in Note 8 to the accounts.

Policy on Reserves

Introduction

The Museum needs to retain a viable reserve in order to:

- a Cover liabilities
- b Cover annual deficits
- c Provide income
- d Fund development

It is the Trustees' policy that the Reserve should be enhanced to £250,000 by the year 2008 through the generation of annual surpluses.

The Trustees continually monitor the levels of the Charity's funds expendable at their discretion, defined for the purpose of this policy as the aggregate of the amounts shown as 'Net Current Assets' in the accounts of the Charity and which are attributable to Unrestricted Funds. As at 31 March 2003, the level of the Museum's Reserves stood at £244,573 (31 March 2002 £228,276).

The amounts and term of the investment of the reserves are based on the Trustees' opinion of the immediate and future needs of the Museum by identifying the requirements for continuing operations and setting aside sufficient funds to enable medium to long term development and expansion.

Scope

Liabilities

The nature of major liabilities faced by the Trustees centre around the care of the five Historic Ships and the Collection. It is planned to have four out of the five ships under cover and in relatively stable conditions over the next three years, leaving the ship of primary concern to be *HMS Alliance* (a member of the National Core Collection). Even after a planned rolling extensive refit, the fact that she remains exposed to the elements and sitting on concrete blocks in a tidal way implies that she is capable of producing surprises that will have to be dealt with at short notice. Given that she is the 'jewel in the crown' of the 'attraction' operation, an appropriate level of reserve must be maintained to cater for any crisis.

Annual deficits

The Museum does not embrace a deficit culture.

Provide income

The Museum operates on relatively slim profit margins, so accrued interest and the annual Gift Aid donation from the Giftshop are welcome boosts to income.

Development

After the completion of the *Fieldhouse Building* project, the Museum will have completed three out of its five development phases. In the process of fundraising for *Fieldhouse Building* (Phase 3) and *HMS Alliance* (Phase 4), the pool of goodwill from all sources of raising money will have been exhausted. It is therefore contingent on the Trustees to build up the reserve to a level appropriate to provide matched funding for the final phase of development, namely replacing the Weapons Gallery and enhancing the Museum entrance and its surrounds.

Investment Policy

The Museum is soon to enter a further period of development during which it will be necessary to call on the Museum's Reserves to underpin cash flow until repayments are received from the Heritage Lottery Fund and HM Customs and Excise for VAT. The present investment policy therefore reflects the need for relatively easy access to the Reserve by maintaining it in cash, and accepting a lower rate of return than may be achieved through a stock market based investment fund, but without the attendant risks.

Payment of Creditors

The Museum adheres to the government-wide standard on the payment of creditors by aiming to settle all undisputed bills within 30 days of receipt or in accordance with the supplier's terms of business. The Museum's actual payment performance during 2002-03 was that these criteria were met in 94.6% of bills paid (2001-02 97.5%).

Policy on the Employment of Disabled Persons

The Museum is committed to managing staff solely on the basis of actual performance in the job, and considering new applicants solely on the basis of ability to do the job. The Museum follows MoD and Civil Service guidelines on such practices and, in particular, has taken the contents of DC1 GEN 343/93 as its Equal Opportunities Policy.

Consultation with Employees

Senior management communicate with staff through weekly staff briefings as well as through departmental staff briefings, informal meetings and internal memoranda.

Future Developments

Investment for the future

Recognising its responsibilities for its collection care and being the 'public' face of the Royal Navy the Museum is currently undertaking the following projects:

- *The John Fieldhouse Building*. This project, which received a Stage 1 Heritage Lottery Fund pass in July 2002, has had £1.95M set aside. Its primary objective is to provide an environmentally

sound display area for the historic mini-submarine *HMS X24*; its secondary objective is to provide a *Submarine and Science Gallery*. The building is expected to open in January 2005.

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Post Balance Sheet Events

There have been no post balance sheet events up to and including the date of signature of these accounts, which might affect the reader's understanding of the financial statements.

Auditors

The accounts are audited by the Comptroller and Auditor General in accordance with the Government and Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003.

Vice Admiral Sir Roy Newman KCB JP DL	Commander J J Tall OBE RN
On behalf of the Board of Trustees	Accounting Officer
17 th July 2003	17 th July 2003

STATEMENT OF BOARD OF TRUSTEES' AND MUSEUM DIRECTOR'S RESPONSIBILITIES

Under Section 30(3) of the National Heritage Act 1983 and law applicable to charities in England and Wales, the Board of Trustees is required to prepare financial statements for each financial year which give a true and fair view of the Royal Navy Submarine Museum's financial activities and of its financial position at the end of the year.

In preparing financial statements giving a true and fair view, the Board of Trustees is required to:

- observe any accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis,
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Charity will continue in operation.

Under law applicable to charities in England and Wales, the Board of Trustees is responsible for keeping accounting records which disclose with reasonable accuracy the financial position of the Charity and which enable the Board to ensure that the financial statements comply with applicable law. The Board is also responsible for safeguarding the assets of the Charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Secretary of State has appointed me, the senior full time official, the Museum Director, as the Accounting Officer for the Royal Navy Submarine Museum. My relevant responsibilities as Accounting Officer, including my responsibility for the propriety and regularity of expenditure from Grant-in-Aid provided by Parliament and for the keeping of proper records, are set out in the Non Departmental Public Bodies' Accounting Officer's Memorandum issued by the Treasury and published in "Government Accounting".

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 Navy Submarine Museum's policies, aims and objectives set by the Board of Trustees, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting, and for ensuring compliance with the requirements of the Royal Navy Submarine Museum's Financial Memorandum.

I, as Chairman of the Trustees, on behalf of the Board of Trustees of the Royal Navy Submarine Museum, am responsible for confirming that a sound system of internal control is maintained within the Museum and that the major risks to which the charity is exposed, as identified by the Trustees, have been reviewed and systems have been established to mitigate those risks.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Royal Navy Submarine Museum's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Royal Navy Submarine Museum for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

A comprehensive Risk Register is in use, which identifies the risks relevant to the successful continuation of the museum's current operations and its future development. The management of risk is exercised through the Museum's Management Group who review on a regular basis the Museum's principal activities and events, with associated risks. The Review of the effectiveness of the system for risk management is exercised through the Audit Committee of the Board of Trustees. In addition The Board of Trustees receives periodic reports on the principal risks and the steps being taken to manage them effectively.

We have responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by the internal audit function (described below), and the executive managers within the Museum who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

The Royal Navy Submarine Museum has a reciprocal agreement with the Royal Marines Museum and the Royal Naval Museum to conduct an annual internal audit of each other, which operates to standards defined in the Government Internal Audit Manual. This internal audit work is informed by an analysis of the risks to which the Royal Navy Submarine Museum is exposed, and annual audit plans are based on this analysis. We are provided with a report on internal audit activity at the Museum annually. This report includes an independent opinion on the adequacy and effectiveness of the Museum's internal controls.

The review of the effectiveness of the system of internal controls is exercised through the Audit Committee. This sub-group, which meets quarterly, is chaired by a Trustee and membership includes an additional Museum Trustee and an external advisor, with the Museum's Director in attendance. The Audit Committee reports directly to the Board of Trustees. This Audit Committee has visibility across the whole sphere of Museum internal management and is well placed to assess the

effectiveness of internal controls and management of risk. It is the Audit Committee that approves and recommends to the Board of Trustees the action plan currently being pursued.

In our view, the information received was sufficient to enable us to review and confirm the effectiveness of the Royal Navy Submarine Museum's system of internal control in accordance with Treasury guidance and recommendations.

Vice Admiral Sir Roy Newman KCB JP DL	Commander J J Tall OBE RN
On behalf of the Board of Trustees	Accounting Officer
17 th July 2003	17 th July 2003

ROYAL NAVY SUBMARINE MUSEUM FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2003

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

I have audited the financial statements on pages 13 to 30 under the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003. These financial statements have been prepared in the form directed by the Secretary of State for Defence and approved by the Treasury; they have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 17 to 19

Respective responsibilities of the Board of Trustees, the Director and the Auditor

As described on page 8, the Board of Trustees and the Director, as Accounting Officer, are responsible for the preparation of financial statements and for ensuring the regularity of financial transactions funded by Parliamentary grant ("Grant in Aid"). The Board of Trustees and the Director are also responsible for the preparation of the Foreword. 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 Charities Act 1993 and directions made by the Secretary of State for Defence thereunder, and whether in all material respects the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Museum has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 9 and 10 reflects the Museum'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 audit 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 in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Trustees and the Director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Royal Navy Submarine Museum's and the group's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects, the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Royal Navy Submarine Museum and the group as at 31 March 2003 and of

- the incoming resources and application of resources of the group for the year then ended and have been properly prepared in accordance with the Charities Act 1993, and the directions made by the Secretary of State for Defence; and
- in all material respects the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

..... July 2003

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

ROYAL NAVY SUBMARINE MUSEUM
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED 31ST MARCH 2002

	Note	Funds £	Unrestricted in Aid £	Grant Funds £	Restricted Other 2003 £	Total Funds 2002 £
Incoming resources						
Grant in Aid (operating)	7	-	488,008	-	488,008	469,411
Grant in Aid (purchases)	7	-	-	-	-	16,000
Other donations and grants	7	27,761	21,873	806,979	856,613	547,821
Investment Income	10	-	-	308	308	-
Museum Admissions		123,910	-	-	123,910	159,313
Income of Trading Company	2	132,245	-	-	132,245	205,172
Sundry Income		16,196	4,007	9,121	29,324	54,790
Total incoming resources		<u>300,112</u>	<u>513,888</u>	<u>816,408</u>	<u>1,630,408</u>	<u>1,452,507</u>
Resources expended						
Costs of generating funds:						
Fundraising and publicity	4	-	57,305	175	57,480	63,501
Expenses of Trading Company	2	114,802	-	-	114,802	154,487
		<u>114,802</u>	<u>57,305</u>	<u>175</u>	<u>172,282</u>	<u>217,988</u>
Net incoming resources available for charitable application		185,310	456,583	816,233	1,458,126	1,234,519
Charitable expenditure:						
Direct charitable expenditure	3	150,046	479,414	50,248	679,708	627,150
Management and administration	5	17,944	40,862	40,421	99,227	63,752
Notional charges	1	-	65,465	-	65,465	42,903
		<u>167,990</u>	<u>585,741</u>	<u>90,669</u>	<u>844,400</u>	<u>733,805</u>
Total resources expended		<u>282,792</u>	<u>643,046</u>	<u>90,844</u>	<u>1,016,682</u>	<u>951,793</u>
Net incoming / (outgoing) resources before transfers		17,320	(129,158)	725,564	613,726	500,714
Adjustment for notional charges	1	-	65,465	-	65,465	42,903
Transfers between funds		(11,230)	-	11,230	-	-
Net incoming / (outgoing) resources		<u>6,090</u>	<u>(63,693)</u>	<u>736,794</u>	<u>679,191</u>	<u>543,617</u>
Other Recognised Gains (Losses)						
Realised gains / (losses)						
Net loss on sale of Fixed Assets		-	-	-	-	(8,189)
Unrealised gains / (losses)						
Revaluation of Investments		-	-	(480)	(480)	-
Revaluation of Fixed Assets		15,027	6,620	15,841	37,488	875,219
Net movement in funds		<u>21,117</u>	<u>(57,073)</u>	<u>752,155</u>	<u>716,199</u>	<u>1,410,647</u>
Fund balances brought forward at 1st April 2002		<u>586,875</u>	<u>1,119,623</u>	<u>941,541</u>	<u>2,648,039</u>	<u>1,237,392</u>
Fund balances carried forward at 31st March 2003		<u><u>607,992</u></u>	<u><u>1,062,550</u></u>	<u><u>1,693,696</u></u>	<u><u>3,364,238</u></u>	<u><u>2,648,039</u></u>

- All transactions are derived from continuing activities.
- All recognised gains and losses are included in the Statement of Financial Activities.

ROYAL NAVY SUBMARINE MUSEUM
CONSOLIDATED BALANCE SHEET - GROUP
AS AT 31ST MARCH 2003

	Note	£	2003 £	£	2002 £
FIXED ASSETS					
Tangible assets	8		2,400,097		2,281,435
Investments	10		10,750		11,230
			<u>2,410,847</u>		<u>2,292,665</u>
CURRENT ASSETS					
Stocks	9	50,274		49,357	
Debtors	12	30,800		3,025	
Cash at bank and in hand	11	1,028,294		360,944	
		<u>1,109,368</u>		<u>413,326</u>	
CREDITORS: amounts falling due within one year	13	<u>(155,977)</u>		<u>(57,952)</u>	
NET CURRENT ASSETS			<u>953,391</u>		<u>355,374</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>£ 3,364,238</u>		<u>£ 2,648,039</u>
FUNDS					
Unrestricted funds:			587,232		566,558
Restricted funds:	14				
Grant in Aid (operating)			1,059,111		1,109,950
Grant in Aid (purchases)			3,439		9,673
Other restricted funds			1,693,696		941,541
Non charitable trading funds			20,760		20,317
TOTAL FUNDS			<u>£ 3,364,238</u>		<u>£ 2,648,039</u>

Approved by the Board of Trustees on 17th July 2003

.....
Vice Admiral Sir Roy Newman KCB JP DL
On behalf of the Board of Trustees

.....
Cmdr. J J Tall OBE RN
Accounting Officer

ROYAL NAVY SUBMARINE MUSEUM
CONSOLIDATED BALANCE SHEET – CHARITY ONLY
AS AT 31ST MARCH 2003

	Note	£	2003 £	£	2002 £	£
FIXED ASSETS						
Tangible assets	8		2,398,639		2,279,105	
Investments	10		10,752		11,232	
			<u>2,409,391</u>		<u>2,290,337</u>	
CURRENT ASSETS						
Debtors						
Amounts falling due within 1 year	12	68,072		65,158		
Cash at bank and in hand	11	1,016,820		322,831		
		<u>1,084,892</u>		<u>387,989</u>		
CREDITORS: amounts falling due within one year	13	<u>(150,805)</u>		<u>(50,604)</u>		
NET CURRENT ASSETS			<u>934,087</u>		<u>337,385</u>	
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>£ 3,343,478</u>		<u>£ 2,627,722</u>	
FUNDS						
Unrestricted funds:			587,232		566,558	
Restricted funds:	14					
Grant in Aid (operating)			1,159,111		1,109,950	
Grant in Aid (purchases)			3,439		9,673	
Other restricted funds			1,693,696		941,541	
			<u>£ 3,343,478</u>		<u>£ 2,627,722</u>	

Approved by the Board of Trustees on 17th July 2003

.....
Vice Admiral Sir Roy Newman KCB JP DL
On behalf of the Board of Trustees

.....
Cmdr. J J Tall OBE RN
Accounting Officer

ROYAL NAVY SUBMARINE MUSEUM
CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 31ST MARCH 2003

	Non-public Funds £	Restricted Grant in Aid £	Charity Funds 2003 £	Group 2003 £	Group 2002 £
<u>Net cashflow/(outflow) from operating activities</u>	849,754	(1,371)	848,383	822,838	574,271
<u>Return on investments and servicing of finance</u>					
Bank interest received	12,273	-	12,273	12,273	4,514
Loan interest received	1,094	-	1,094	-	-
Dividends received	308	-	308	308	-
<u>Capital expenditure and financial investment</u>					
Purchase of fixed assets	(151,069)	(17,000)	(168,069)	(168,069)	(389,694)
Sale of fixed assets	-	-	-	-	1,000
Purchase of Investments	-	-	-	-	(11,230)
<u>Increase / (Decrease) in cash</u>	<u>712,360</u>	<u>(18,371)</u>	<u>693,989</u>	<u>667,350</u>	<u>178,861</u>

Reconciliation of Changes in Resources to Net Cashflow From Operating Activities

Net incoming / (outgoings) resources for year	742,441	(63,693)	678,748	679,191	543,617
Depreciation	36,268	49,429	85,697	86,569	63,036
Investment income and interest received	(13,675)	-	(13,675)	(12,581)	(4,514)
Loss on sale of fixed assets	326	-	326	326	-
Increase / (Decrease) in creditors	79,910	20,291	100,201	98,025	101,142
(Increase) /Decrease in stocks	-	-	-	(917)	14,741
(Increase) /Decrease in debtors	4,484	(7,398)	(2,914)	(27,775)	58,533
<u>Net cash inflow/(outflow) from operating activities</u>	<u>849,754</u>	<u>(1,371)</u>	<u>848,383</u>	<u>822,838</u>	<u>574,271</u>

ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

1 ACCOUNTING POLICIES

Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable accounting standards, the Statement of Recommended Practice: Accounting by Charities issued in 2000 and guidance issued by HM Treasury.

The financial statements are prepared under the historical cost convention modified to include fixed assets at their value to the business by reference to current costs.

Consolidated financial statements have been prepared in respect of the charitable trust, its wholly owned subsidiary, Submarine Giftshop Limited. The Consolidated Statement of Financial Activities includes the results of the Submarine Giftshop Limited as single line items. The consolidated balance sheet includes the net assets of Submarine Giftshop Limited, on a line by line basis.

Incoming resources

Voluntary income and donations are accounted for as received by the charity. No permanent endowments have been received in the year.

Land and Buildings

Long leasehold property is stated at a valuation of depreciated replacement cost and depreciated over the lease term. A professional valuation is obtained at least every five years and indices used reflect the change in value in the intervening years.

Fixtures and fittings

Fixtures and equipment with a cost or value greater than £750 and a useful life exceeding one year are capitalised at historic cost and revalued annually using Ministry of Defence derived indices. Fixtures and equipment are depreciated over their expected useful lives, of ten years.

Office equipment

Plant and equipment with a cost or value greater than £750 and a useful life exceeding one year is capitalised at historic cost and revalued annually using Ministry of Defence derived indices. Plant and equipment is depreciated over its expected useful lives of four years.

Assets held by Submarine Giftshop Limited

The tangible fixed assets of the Submarine Giftshop Limited are stated in the museum's group accounts at historic cost less accumulated depreciation. Depreciation has been provided at rates calculated to spread the cost of each asset over its expected useful life as follows:

Fixtures and Fittings	- 25% on cost
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ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

Basis of cost allocation

Fundraising expenditure comprises costs incurred in encouraging people and organisations to contribute financially to the charity's work.

Expenditure on management and administration of the charity includes all expenditure not directly relating to the charitable activity or fundraising ventures. This includes costs of renting and running office premises, staff salaries for administrative staff and audit fees.

Costs shared by more than one function have been apportioned on the basis of relative consumption.

Grants receivable

Revenue grants are credited to incoming resources on the earlier date of when they are received or when they are receivable, unless they relate to a specified future period, in which case they are deferred.

Grants for the purchase of fixed assets are credited to restricted incoming resources when receivable. Depreciation on the fixed assets purchased with such grants is charged against the restricted fund.

Restricted funds

Restricted funds are to be used for specified purposes as laid down by the donor. Expenditure which meets these criteria is identified to the fund, together with a fair allocation of overheads and support costs.

Unrestricted funds are donations and other incoming resources received or generated for the charitable purposes.

Notional charges

In accordance with Treasury guidance the following items are charged to the Statement of Financial Activities:

Notional interest at 6% of the average cost of capital employed in respect of Grant in Aid funds.

This notional charge is not an actual cost to the Museum and a corresponding credit entry is also reflected on the Statement of Financial Activities.

Leased assets

Rentals applicable to operating leases are charged to the Statement of Financial Activities as incurred.

Investments

Investments are revalued at the market value at the balance sheet date and the gain or loss taken to the Statement of Financial Activities.

ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

Stocks

Stocks are valued at the lower of cost, (or at net current replacement costs, if materially different), and net realisable value after making due allowance for obsolescence and slow moving items.

Collection assets

Artefacts held in trust together with photographs, books and a reserve collection have not been included in the financial statements due to their historic nature, covering the history of the Royal Navy Submarine Service.

With effect from 1st April 2000, additions to the collection with a cost in excess of £750 have been capitalised. In accordance with guidance issued by HM Treasury these assets are not revalued or depreciated.

Pensions

The majority of staff are covered by a group personal pension plan scheme. The remainder are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which provides benefits based on the final pensionable pay.

The pension cost charged Statement of Financial Activities of £26,066 (2001-02 £22,905), is represented by the contributions payable under the group scheme, which are fixed at 12.5%. No amounts were outstanding at the year end. The contributions payable under the PCSPS to the Paymaster General at rates determined from time to time by the Government Actuary, which for 2002/03 were as follows:

Non – industrial staff:

Band one - £16,500 and under	12.0%
Band two - £16,501 - £34,000	13.5%
Band three - £34,001 - £59,000	16.5%
Band four - £59,001 and over	18.5%

The PCSPS is an unfounded multi – employer defined benefit scheme but the Royal Navy Submarine Museum is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2002-03, employers' contributions of £3,463 were payable to the PCSPS (2001-02 £3,697) 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 revalorisation 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.

ROYAL NAVY SUBMARINE MUSEUM**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31ST MARCH 2003**

2 INCOME AND EXPENSES FROM TRADING ACTIVITIES OF SUBSIDIARIES

The charity has a wholly owned trading subsidiary which is incorporated in the United Kingdom. Submarine Giftshop Limited operates a souvenir shop within the museum.

The company transfers its taxable profits to the Royal Navy Submarine Museum by way of Gift Aid. A summary of its trading results is show below. Audited accounts have been filed with Registrar of Companies.

Profit and Loss Account**Year ended 31st March 2003**

	<u>2003</u> £	<u>2002</u> £
Turnover	132,245	205,172
Cost of sales	(75,062)	(113,813)
	<hr/>	<hr/>
Gross Profit	57,183	91,359
Administration	(38,646)	(38,211)
Interest payable	(1,094)	(1,557)
	<hr/>	<hr/>
Net profit	17,443	51,591
Corporation Tax	-	(906)
	<hr/>	<hr/>
Amount gifted to Royal Navy Submarine Museum	17,443 (17,000)	50,685 (42,000)
	<hr/>	<hr/>
Retained in Subsidiary	£ 443	£ 8,685
	<hr/> <hr/>	<hr/> <hr/>
Capital and reserves	£ 20,760	£ 20,317
	<hr/> <hr/>	<hr/> <hr/>

Submarine Giftshop Limited has an issued share capital of 2 ordinary shares of £1 each.

Related party transactions

Submarine Giftshop Limited is a related party of the Royal Navy Submarine Museum and, in addition to the above transaction, pays interest to the Museum on the outstanding loan, as detailed below.

Amounts paid in Loan interest	£ 1,094	£ 1,557
	<hr/> <hr/>	<hr/> <hr/>

No amounts have been written off by The Royal Navy Submarine Museum during the year.

ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

3 DIRECT CHARITABLE EXPENDITURE

	Unrestricted <u>Funds</u> £	Restricted Grant in <u>Aid</u> £	Other <u>Funds</u> £	Total <u>2003</u> £	Total <u>2002</u> £
Museum running costs:					
Staff costs	122,248	299,376	-	421,624	421,306
Donations	6,841	-	-	6,481	15,817
Education	-	4,737	305	5,042	6,271
Training	-	1,847	-	1,847	1,412
Health and Safety	-	9,336	-	9,336	5,309
Purchase of Exhibits	-	6,234	-	6,234	15,022
Exhibit Maintenance	-	15,655	155	15,810	5,284
Security	-	494	-	494	2,598
Photographic	-	10,002	-	10,002	5,953
Rent and Rates	-	3,591	-	3,591	3,131
Printing, Postage & Stationery	-	9,396	2,455	11,851	12,227
Telephone	-	7,134	177	7,311	5,104
Insurance	-	6,248	-	6,248	9,677
Archives	5,078	13,352	-	18,439	8,742
Light and Heat	-	2,187	-	2,187	4,784
Repairs and Renewals	578	38,294	2,788	41,660	15,781
Jetty Maintenance	4,075	1,575	-	5,650	3,220
HMS Alliance	-	-	7,200	7,200	16,385
Holland One	-	527	11,550	12,077	6,868
Explosion	927	-	-	927	-
Depreciation	10,650	49,429	25,618	85,697	62,259
	<u>150,046</u>	<u>479,414</u>	<u>50,248</u>	<u>679,708</u>	<u>627,150</u>

4 FUNDRAISING AND PUBLICITY

	Unrestricted <u>Funds</u> £	Restricted Grant in <u>Aid</u> £	Other <u>Funds</u> £	Total <u>2003</u> £	Total <u>2002</u> £
Publicity and Public Relations	-	55,338	-	55,338	61,142
Printing, Postage & Stationery	-	671	175	846	851
Telephone	-	510	-	510	352
Insurance	-	446	-	446	691
Light and Heat	-	129	-	129	281
Rent and Rates	-	211	-	211	184
	<u>£ -</u>	<u>£ 57,305</u>	<u>£ 175</u>	<u>£ 57,480</u>	<u>£ 63,501</u>

The costs included as fundraising and publicity relate to specific fundraising activities and general museum marketing.

ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

5 MANAGEMENT AND ADMINISTRATION OF THE CHARITY

	Unrestricted	Restricted		Total	Total
	Funds	Grant in	Other	2003	2002
	£	Aid	Funds	£	£
		£	£		
Staff costs	-	4,492	-	4,492	3,970
Telephone	-	2,548	-	2,548	1,761
Insurance	-	2,231	-	2,231	3,456
Cleaning and Sundry	3,113	998	50	4,161	5,330
Light and Heat	-	257	-	257	563
Rent and Rates	-	423	-	423	368
Accountancy	3,500	4,380	-	7,880	7,070
Audit	3,000	5,500	-	8,500	8,500
Printing , Postage and Stationery	-	3,356	877	4,233	4,259
Motor and Travel	5,167	5,698	-	10,865	10,272
Entertaining	-	-	-	-	1,699
Subscriptions	-	1,762	-	1,762	1,959
Consultancy	1,942	795	32,846	35,583	4,259
Legal and Professional	-	-	5,866	5,866	2,075
Bank charges	1,222	2,012	562	3,796	1,972
Equipment Rentals	-	6,410	220	6,630	6,239
	<u>£ 17,944</u>	<u>£ 40,862</u>	<u>£ 40,421</u>	<u>£ 99,227</u>	<u>£ 63,752</u>

ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

6 TOTAL RESOURCES EXPENDED

	<u>Staff costs</u> £	<u>Other costs</u> £	<u>Depreciation</u> £	<u>Total 2003</u> £	<u>Total 2002</u> £
Museum running costs	421,624	172,387	85,697	679,708	627,150
Fundraising and publicity	-	57,480	-	57,480	63,501
Management and administration	4,492	94,735	-	99,227	63,752
Notional Charges	-	65,465	-	65,465	42,903
Total	<u>426,116</u>	<u>390,067</u>	<u>85,697</u>	<u>901,880</u>	<u>797,306</u>

	<u>2003</u> £	<u>2002</u> £
Staff costs:		
Wages and salaries	369,200	372,379
Social security costs	27,387	26,295
Pension costs	29,529	26,602
	<u>426,116</u>	<u>425,276</u>

Except for the director, no employee earned £40,000 per annum or more.

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

	<u>2003</u>	<u>2002</u>
Museum services	23	23
Fundraising and publicity	-	-
Management and administration of the charity	5	5
	<u>28</u>	<u>28</u>

The director, J J Tall, had a basic salary during the year ended 31st March 2003 of £41,773 per annum. The director is aged 60, his pension (net of inflation) rose by £5,541 in the year, with this total pension fund now being £44,040 as part of the group personal pension plan.

No Trustees received remuneration during the year (2002 : NIL). Four Trustees were reimbursed for travel expenses totalling £2,664 (2002 : £2,479).

ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

7 GRANTS AND DONATIONS

During the year the following grants and donations were received:

Grants received from Ministry of Defence Vote, Request for Resources 1:

	Unrestricted	Grant in Aid	Restricted Other Funds	2003 Total	2002 Total
	£	£	£	£	£
Operations	-	488,008	-	488,008	469,411
Purchase of Exhibits	-	-	-	-	16,000
	-	£ 488,008	-	£ 488,008	£ 485,411

Other grants and donations:

Society of Friends	-	21,873	-	21,873	28,280
Copus	-	-	-	-	1,500
Hampshire County Council	-	-	-	-	4,000
BAE Systems	-	-	-	-	50,000
Rolls Royce	-	-	50,000	50,000	50,000
W H Smith	-	-	-	-	1,000
Collection from Westminster Abbey	-	-	-	-	5,692
Granada Television	750	-	-	750	750
Benham A Buckingham	-	-	-	-	650
Re: Source	-	-	-	-	4,853
Naval Submarine League	-	-	-	-	3,604
Lady Fieldhouse	-	-	-	-	1,000
Captain W Meeke	-	-	-	-	1,000
Mr R Hunter	-	-	-	-	6,150
Edwina Mountbatten	-	-	-	-	2,000
Lottery Grant	-	-	128,147	128,147	354,673
Sir Michael Cobham	-	-	-	-	11,230
Pilgrim Trust	15,000	-	-	15,000	-
Trustees of Lt Col R Wilson	5,000	-	-	5,000	-
St John Eye Hospital	1,348	-	1,348	2,696	-
Gosling Foundation	-	-	500,000	500,000	-
H.L Funding	-	-	37,998	37,998	-
Esmee Fairbairn Foundation	-	-	10,000	10,000	-
Dulverton Trust	-	-	25,000	25,000	-
Royal Mail	-	-	1,000	1,000	-
Garfield Weston Foundation	-	-	50,000	50,000	-
Miscellaneous amounts	5,663	-	3,486	9,149	21,439
	£ 27,761	£ 21,873	£ 806,979	£ 856,613	£ 547,821

ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

During the year the following grants and donations were paid:

	Unrestricted £	Restricted Grant in Aid £	Other Funds £	2003 Total £	2002 Total £
Royal Navy Benevolent Trust					
From Submariners Association	-	-	-		594
From Submariners Old					
Comrades Association	-	-	-	-	40
From Collection at Westminster					
Abbey Memorial Service	-	-	-		5,692
From St John Eye Hospital	1,348	-	-	1,348	-
From Collected Donations	133	-	-	133	3,241
From Trustees Private Funds	4,000	-	-	4,000	5,250
Mrs J Holmes	1,000	-	-	1,000	1,000
	6,481	-	-	6,481	15,817

The donations paid include monies collected by the Museum for this purpose, together with further amounts from the trust's unrestricted funds.

8 TANGIBLE ASSETS

GROUP

	Land and Buildings £	Fixtures and Fittings £	Office Equipment £	Assets Under Construction £	Purchase of Exhibits £	Total £
Cost or valuation						
1 st April 2002	2,119,700	203,235	35,218	-	13,155	2,371,308
Additions	47,628	-	5,018	103,441	11,982	168,069
Disposals	(326)	-	-	-	-	(326)
Revaluation in year	37,690	1,414	(3,747)	-	-	35,357
31 st March 2003	2,204,692	204,649	36,489	103,441	25,137	2,574,408
Depreciation						
1 st April 2002	-	60,790	29,083	-	-	89,873
Charge for the year	60,829	20,123	5,617	-	-	86,569
Backlog Depreciation	-	394	(2,525)	-	-	(2,131)
On Revaluation	-	-	-	-	-	-
31 st March 2003	60,829	81,307	32,175	-	-	174,311
Net Book Value						
31 st March 2003	£ 2,143,863	£ 123,342	£ 4,314	£ 103,441	£ 25,137	£ 2,400,097
31 st March 2002	£ 2,119,700	£ 142,445	£ 6,135	£ -	£ 13,155	£ 2,281,435

ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

The net book value of Fixtures and equipment includes an amount of £1,458 in respect of assets held by the Submarine Giftshop Limited. Whilst the Museum is required to follow HM Treasury's guidance and therefore revalues its tangible fixed assets annually, the trading company is not subject to Treasury guidance and does not revalue its tangible fixed assets.

Land and buildings were valued on the basis of depreciated replacement cost as at 31st March 2002. The valuation was undertaken by D J H Reddy FRICS ACI Arb of Messrs. Hellier Langston.

With effect from 1st April 2000, additions to the Collection, with a cost of £750, have been capitalised. In accordance with guidance issued by HM Treasury these assets are not revalued or depreciated.

All fixed assets held by the charity are used for direct charitable purposes.

The site of the Royal Navy Submarine Museum is occupied under a lease from the Secretary of State for Defence dated 17th October 2000. This lease has been valued and included as an asset of the Museum, in accordance with FRS 5: Reporting the Substance of Transactions.

9 STOCKS

	2003		2002	
	<u>Charity</u>	<u>Group</u>	<u>Charity</u>	<u>Group</u>
	£	£	£	£
The amounts attributable to the different categories are as follows:				
Goods For Resale	-	50,274	-	49,357
	<u>£ -</u>	<u>£ 50,274</u>	<u>£ -</u>	<u>£ 49,357</u>

10 INVESTMENTS

	2003	
	<u>Charity</u>	<u>Group</u>
	£	£
Market value at 1 st April 2002	11,230	11,230
Acquisitions at cost	-	-
Disposals at opening book value	-	-
Net unrealised gains / (losses)	(480)	(480)
Market value at 31 st March 2003	<u>10,750</u>	<u>10,750</u>
Historic cost at 31 st March 2003	<u>11,230</u>	<u>11,230</u>
Market value at 31 st March 2002	<u>£ 11,230</u>	<u>£ 11,230</u>
Historic cost at 31 st March 2002	<u>£ 11,230</u>	<u>£ 11,230</u>

All investments held are listed on the United Kingdom Stock Exchange. All investment income is generated from listed investments.

ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

11 CASH AT BANK AND IN HAND

	<u>2003</u>	<u>2002</u>
Unrestricted funds	219,927	183,685
Centennial funds	15,946	3,225
Development fund	794,399	131,000
Kursk Appeal fund	-	2
	<hr/>	<hr/>
Non-public funds	1,030,272	317,912
Public funds	(13,452)	4,919
	<hr/>	<hr/>
Cash at bank and in hand – Charity	£ 1,016,820	£ 322,831
	<hr/> <hr/>	<hr/> <hr/>
Trading Subsidiary	11,474	38,113
	<hr/>	<hr/>
Cash at bank and in hand – Group	£ 1,028,294	£ 360,944
	<hr/> <hr/>	<hr/> <hr/>

12 DEBTORS

	<u>2003</u>		<u>2002</u>	
	<u>Charity</u>	<u>Group</u>	<u>Charity</u>	<u>Group</u>
	£	£	£	£
Amounts due within 1 year:				
Social Security & Other Taxes	21,680	20,186	4,849	2,947
Prepayments	28,161	10,614	42,078	78
Amounts owed by Submarine Giftshop Ltd	18,231	-	18,231	-
	<hr/>	<hr/>	<hr/>	<hr/>
	£ 68,072	£ 30,800	£ 65,158	£ 3,025
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The loan to the Submarine Giftshop Limited is secured by debenture.

ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

**13 CREDITORS – AMOUNTS FALLING DUE
WITHIN ONE YEAR**

	2002	Group	2001	Group
	<u>Charity</u>	<u>Group</u>	<u>Charity</u>	<u>Group</u>
	£	£	£	£
Trade Creditors	71,579	72,899	4,673	8,136
Other taxes and social security	7,598	7,905	8,229	9,409
Other creditors	1,411	1,411	22	22
Accruals	70,217	73,762	37,680	40,385
	<u>£ 150,805</u>	<u>£ 155,977</u>	<u>£ 50,604</u>	<u>£ 57,952</u>

14 RESTRICTED FUNDS

	Balance at 1st April 2002	Incoming resources	Expenditure	Transfers	Balance at 31st March 2003
	£	£	£	£	£
Grant in Aid (operating)	1,109,950	579,353	(630,192)	-	1,059,111
Grant in Aid (purchases)	9,673	-	(6,234)	-	3,439
Centennial Project	19,819	142,423	(40,343)	(33,770)	88,129
Development Fund	<u>921,722</u>	<u>679,985</u>	<u>(35,140)</u>	<u>45,000</u>	<u>1,605,567</u>
	<u>2,061,164</u>	<u>1,395,761</u>	<u>(711,909)</u>	<u>11,230</u>	<u>2,756,246</u>

The Museum receives Grant in Aid funding from the Ministry of Defence as a contribution towards operating costs.

During the year ended 31st March 2002, the Museum was gifted 1000 shares in Cobham plc. These shares were treated as unrestricted funds in the 2002 accounts. However, the shares were gifted in response to the Centennial Appeal and therefore have been transferred at their opening market value, from unrestricted funds to the Centennial fund, in the 2003 accounts.

ROYAL NAVY SUBMARINE MUSEUM**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31ST MARCH 2003**

15 ANALYSIS OF NET ASSETS BETWEEN FUNDS

	Tangible Fixed Assets	Investments	Net Current Assets	Total
	£	£	£	£
Restricted Funds:				
Grant in Aid (operating)	1,111,514	-	(52,403)	1,059,111
Grant in Aid (purchases)	-	-	3,439	3,439
Centennial Fund	63,388	10,750	13,991	88,129
Development Fund	<u>881,080</u>	<u>-</u>	<u>724,487</u>	<u>1,605,567</u>
	2,055,982	10,750	689,514	2,756,246
Unrestricted funds – Charity	<u>342,657</u>	<u>2</u>	<u>244,573</u>	<u>587,232</u>
	2,398,639	10,752	934,087	3,343,478
Non charitable trading funds	<u>1,458</u>	<u>(2)</u>	<u>19,304</u>	<u>20,760</u>
Total net assets – Group	<u>£ 2,400,097</u>	<u>£ 10,750</u>	<u>£ 953,391</u>	<u>£ 3,364,238</u>

16 COMMITMENTS AND CONTINGENT LIABILITIES**CAPITAL COMMITMENTS**

The Charity had no capital commitments contracted for or authorised by the Trustees at 31st March 2003 or at 31st March 2002.

CONTINGENT LIABILITIES

The Charity had no contingent liabilities at 31st March 2003 or at 31st March 2002.

ROYAL NAVY SUBMARINE MUSEUM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2003

17 OTHER COMMITMENTS

At the year end the charity had annual commitments under non-cancellable operating leases as follows:

	<u>Land and Buildings</u> <u>2003</u> £	<u>Other</u> <u>2003</u> £	<u>Land and Buildings</u> <u>2002</u> £	<u>Other</u> <u>2002</u> £
Expiry date:				
Within one year	-	-	-	-
Over one year				
Between two and five years	-	3,938	-	3,938
In more than five years	-	-	-	-
	<u>-</u>	<u>3,938</u>	<u>-</u>	<u>3,938</u>

18 OTHER RELATED PARTY TRANSACTIONS

The Royal Navy Submarine Museum is a Non Departmental Public Body, sponsored by the Ministry of Defence (the MoD). The MoD is regarded as a related party. Grant in Aid funding from the MoD is separately disclosed in the Statement of Financial Activities.

The Royal Navy Submarine Museum is a related party of the Society of Friends of the Royal Navy Submarine Museum. During the year the Society donated a total of £21,873 to the Museum.

The Museum's Webmaster, Gavial, is owned by Mrs Annabel Tall, the daughter in law of the Museum's director. During the year the Museum paid £1,100 for her services.

19 TAXATION

All of the charity's income is applied for charitable purposes and therefore the charity is exempt from corporation tax. The charity's trading subsidiary had a corporation tax liability of £NIL as at 31st March 2003 (2002: £906).

20 EXTERNAL PERFORMANCE INDICATORS

Ratio of self-generated income to GiA

Year	Self Generated Income	Grant in Aid Income	% Total Revenue GiA	% Total Revenue Self Generated	
2002/2003	203,000	488,000	71%	29%	Actual
2002/2003	213,000	488,000	70%	30%	Budget
2001/2002	259,000	485,000	65%	35%	Actual

**ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE FOR
DEFENCE WITH THE APPROVAL OF HM TREASURY**

1. The Royal Navy Submarine Museum shall prepare accounts for the financial year ended 31st March 1998 and subsequent financial years comprising:
 - a. a foreword;
 - b. a Statement of Financial Activities (SOFA);
 - c. a Balance Sheet
 - d. a Cash Flow Statement; and
 - e. notes to the accounts including such notes as may be necessary for the purpose referred to in the following paragraphs.
2. If the Museum has subsidiary undertakings, the statements referred to in paragraph 1 shall be prepared on a consolidated basis. In addition, there shall be a balance sheet in respect of the Museum alone, with relevant notes. When preparing the consolidated accounts, the Board of Trustees shall observe all relevant guidance issued by the Treasury and the Ministry of Defence.
3. The accounts shall give a true and fair view of the incoming resources and application of resources during the financial year, and the state of the Museum's affairs at the end of the financial year.
4. Subject to this requirement the accounts shall be prepared in accordance with:
 - a. the Charities Act 1993, the Charities (Accounts and Reports) regulations 1995 and the Statement of Recommended Practice (SORP) "Accounting by Charities" (the Charities SORP);
 - b. generally accepted accounting practice in the United Kingdom (UK GAAP);
 - c. requirements contained in "The Fees and Charges Guide" (in particular those relating to the need for segmental information for services or forms of services provided) and in any other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
 - d. the accounting and disclosure requirements of "Government Accounting" and the Treasury's guidance paper "Executive Non-Departmental Public Bodies – Annual reports and Accounts Guidance" (March 1996), as amended or augmented from time to time, insofar as these are appropriate to the Museum and are in force for the financial year for which the accounts are to be prepared.
5. Clarification of the application of the accounting and disclosure requirements of the Charities Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.
6. The SOFA and Balance sheet(s) shall be prepared under the historical cost convention modified by the inclusion of:
 - a. fixed assets at their value to the business by reference to current costs; and
 - b. stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.
7. This direction shall be reproduced as an appendix to the accounts.

Schedule 1
Amended 9 September 1998

**APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE
CHARITIES ACT AND ACCOUNTING STANDARDS**

CHARITIES ACT

1. When preparing its Statement of Financial Activities, The Royal Navy Submarine Museum shall include under “Resources Expended” a heading relating to the inclusion of notional charges for insurance (if applicable) and cost of capital, and shall include an additional heading “Adjustment for the notional cost of capital” after “Net incoming Resources before Transfers”.
2. When preparing its Balance Sheet, the Museum shall have regard to the balance sheet format prescribed in the Charities SORP, save that the balance sheet totals be struck at “Total assets less current liabilities”.
3. The foreword shall be signed by the Accounting Officer of the Museum and the balance sheet shall be signed by the Chairman of the Museum’s Trustees on behalf of the Board and the Accounting Officer of the Museum and dated. The Accounting officer shall initial all the other pages of the financial statements.

ACCOUNTING STANDARDS

4. The Museum is not required to include a note showing historical costs profits and losses as described in FRS 3.
5. The Financial Reporting Standard for Smaller Entities (FRSSE) should not be adopted unless specifically approved by the Treasury.

Schedule 2

ADDITIONAL DISCLOSURE REQUIREMENTS

1. The foreword shall, inter alia;
 - a. state that the accounts have been prepared in accordance with the direction given by the Secretary of State for Defence with the approval of HM Treasury; and
 - b. include a brief history of the Museum and its statutory background.
2. The notes to the accounts shall include details of the key corporate financial targets set by the Secretary of State and the Board of Trustees together with an indication of the performance achieved.