



Historic Royal Palaces is the independent charity that looks after the Tower of London, Hampton Court Palace, the Banqueting House, Kensington Palace and Kew Palace. We help everyone explore the story of how monarchs and people have shaped society, in some of the greatest palaces ever built.

We receive no funding from the Government or the Crown, so we depend on the support of our visitors, members, donors, volunteers and sponsors.

# FINANCIAL STATEMENTS

## AS AT 31 MARCH 2013

# Trustees' Report

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## *Trustees*

Charles Mackay CBE (Chairman)  
Sir Alan Reid GCVO (Deputy Chairman)  
Sophie Andreae DSG FSA  
Dawn Austwick OBE  
Ian Barlow DL  
Liz Cleaver  
General the Lord Dannatt GCB CBE MC DL  
Sue Farr (until 31 March 2013)  
Jonathan Marsden CVO FSA  
Sir Trevor McDonald OBE  
Sir Adrian Montague CBE (until 30 June 2013)  
Malcolm Reading  
Louise Wilson FRSA (since 12 June 2013)

## *Executive Board*

Michael Day (*Chief Executive and Accounting Officer*)  
John Barnes  
Tania Fitzgerald  
Gina George  
Paul Gray  
Colonel Richard Harrold OBE  
Danny Homan  
Graham Josephs

## *Registered Office*

Hampton Court Palace  
Surrey KT8 9AU

## *Auditors of the Group*

The Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
London SW1W 9SP

## *Bankers*

Barclays Bank plc  
1 Churchill Place  
Canary Wharf  
London E14 5HP

## *Solicitors*

Farrer & Co  
66 Lincoln's Inn Fields  
London WC2A 3LH

## *Historic Royal Palaces: Registered Charity number 1068852*

Historic Royal Palaces Enterprises Ltd: Company limited by share capital, registered number 3418583

## Trustees' Report (continued)

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Historic Royal Palaces (HRP) was established in 1998 as a Royal Charter Body with charitable status and is contracted by the Secretary of State for the Department for Culture, Media and Sport (DCMS) to manage the palaces on her behalf. It is responsible for the care, conservation and presentation to the public of the unoccupied royal palaces: HM Tower of London, Hampton Court Palace, Kensington Palace State Apartments, the Banqueting House at Whitehall and Kew Palace with the Royal Kitchens & Queen Charlotte's Cottage.

The palaces are owned by The Queen on behalf of the nation. HRP is a Public Corporation but receives no public funding - all costs are met by self-generated income. HRP is governed by a Board of Trustees, all of whom are non-executive and the Chief Executive is accountable to the Board of Trustees.

Further information and a copy of the Annual Review and Summary Accounts can be obtained from [www.hrp.org.uk](http://www.hrp.org.uk).

### Objectives and activities

The objectives of HRP, as set out in its Royal Charter are, for the benefit of the nation:

- to manage, conserve, renovate, repair, maintain and improve the palaces to a high standard consistent with their status as buildings of royal, historic and architectural importance;
- to help everyone to learn about the palaces, the skills required for their conservation and the wider story of how monarchs and people together have shaped society by providing public access, by exhibition, by events and education programmes, by the preparation of records, by research and by publication and by such other means as are appropriate.

### Our Cause

To help everyone explore the story of how monarchs and people have shaped society, in some of the greatest palaces ever built.

**Our work is guided by four principles:**

#### Guardianship

We exist for tomorrow, not just for yesterday. Our job is to give these palaces a future as valuable as their past. We know how precious they and their contents are, and we aim to conserve them to the standard they deserve: the best.

#### Discovery

We explain the bigger picture, and then encourage people to make their own discoveries, in particular, to find links with their own lives and with the world today.

#### Showmanship

We do everything with panache. Palaces have always been places of spectacle, beauty, majesty and pageantry, and we are proud to continue that tradition.

#### Independence

We have a unique task, and our own point of view. We challenge ourselves to find new ways to do our work. We are a financially independent charity and welcome everyone who can support our Cause.

## Trustees' Report (continued)

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### Five major strategic aims to face the challenges of the future

In setting Historic Royal Palaces' aims and planning our activities, the Trustees have given due consideration to the Charity Commission's general guidance on public benefit and also to its supplementary public benefit guidance on fee charging and advancing education.

#### 1. Give the palaces the care they deserve

We are guardians of five of the nation's most important historic sites. Two are World Heritage Sites, four are Scheduled Ancient Monuments, and one is a Grade I listed building. Our responsibility covers the fabric of the buildings, interiors and contents, estates and landscapes, and the stories and traditions associated with these famous sites. We are also responsible for developing the specialist skills of our staff. The idea of 'Guardianship' for us means to *care for, look after and keep secure*, and also to *nurture, develop and reach potential*. Conserving in the state we have inherited them is not enough; we aim to hand them on to future generations in a better state. The scale of the future challenge is set out in the *State of the Estate* and the *State of the Interiors* reports, and the Gardens Conservation Management Plans. The top ten conservation projects in each of these areas are built into our forward plans

#### 2. Transform the way visitors explore their story

The central idea of *visitors exploring their story* derives from our Cause. HRP believes history, beauty and art have the power to inspire, and that everyone wants to understand more of the world they live in. People make their own meaning and we can support this by helping our visitors make connections to our stories. In the total experience that people have, from planning a visit to the memories they take away, our aim is to inspire learning for everyone. Delighting our customers is also critical to our future financial prosperity; we depend on this income stream for the majority of our revenue. We are engaged in an extensive programme of change and development – in the way we present the palaces, help people explore stories, provide services and engage people's senses.

#### 3. Have wider impact in the world

Our Cause defines an ambition to 'help *everyone* explore the story of how monarchs and people have shaped society...' Our priority is to broaden our reach, build awareness, support and influence for HRP as widely as possible in all our communication and public-facing activities. We run extensive direct education programmes at all our sites. This year a key focus was our contribution to the national celebrations for The Queen's Diamond Jubilee and the London Olympics.

#### 4. Build one organisation united behind our Cause

We continue to drive culture change and performance improvement in line with our Cause and performance framework: Putting the customer first; Knowing our stuff; Doing it well, and Working together. We are giving particular attention at the moment to increasing the ethnic diversity of our workforce, promoting further efficiency, managing poor performance & attendance and improving leadership capability.

#### 5. Generate the money to make it all possible

Financial sustainability for HRP depends on the success of key income streams to fund our Charter and Cause objectives. This is supported by a reserves policy that aims to keep free reserves at a modest level so as to allow the maximum resource spend for our charitable objectives, and to designate any annual surpluses for projects. Our main income streams are from visitors, retail, catering, functions & events, and fundraising. As a self-supporting charity, we charge admission fees to visitors to our palaces and for our education service. These are reviewed annually and benchmarked to ensure they remain affordable to the general public. We have concessionary prices for children, family groups, those over 60 and full time students, in addition to offers such as the Tesco voucher scheme, to widen our appeal to as many audiences as possible. HRP membership provides a significant discount for regular visitors who wish to support our work in that way. We provide special free programmes for local communities around our palaces and free content through our website and other media channels for people who do not visit the palaces in person.

# Trustees' Report (continued)

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## Achievements and Performance

### 1. Give the palaces the care they deserve

- We have continued our programme of major conservation projects in buildings, interiors and contents, estates and landscapes
- The transformed Kensington Palace won two London region awards from the Royal Institution of Chartered Surveyors and has been shortlisted for another from the Royal Institute of British Architects. The gardens project won the Georgian Group Architectural award for Best Restoration of a Georgian Urban Landscape
- We also launched the quinquennial State of the Estate survey of all buildings in our care, using a newly developed methodology focussing on key conservation governance questions: priority, progress, quality and value
- A major project to restore the Royal Kitchens at Kew was completed in the year. Virtually untouched for two centuries, the kitchens have been returned to working condition and are now open for visitors to enjoy
- We marked 100 years of textile conservation with the anniversary of the first tapestry conservation studios at Hampton Court. Artist Grayson Perry gave the keynote address at a reception at the Banqueting House in February
- Textile conservators completed many years of work on our unique collection of state beds, including a replica counterpane for Queen Caroline's bed and a digitally-printed textile to restore the original beauty of Queen Anne's bed
- The second phase of the conservation of the Tjou Screen at Hampton Court was successfully completed, and we commenced a further phase of repairs to Hampton Court's roof
- We completed the move of the Royal Ceremonial Dress Collection from Kensington Palace to Hampton Court
- Work has started on digitising our 175,000 historic and contemporary images, and the installation of a cold store at Hampton Court will help prevent the deterioration of the image negatives
- The completion last year of the conservation of the White Tower was recognised this year when it was named winner of the Royal Institution of Chartered Surveyors London region project of the year
- Total spend of £17.2m in the Statement of Financial Activities (SOFA) represents a decrease of 14% from the previous year. The decrease is mostly due to the investment last year in the re-development of Kensington Palace and the re-presentation of the Crown Jewels, significant projects that were completed in March 2012.

### 2. Transform the way visitors explore their story

- This was the first full year of operation for the re-developed Kensington Palace, offering newly presented stories and experiences for our visitors
- 'Jubilee - a View from the Crowd' exhibition opened at Kensington Palace in the summer and explored how Queen Victoria's Jubilee was marked by her subjects
- An evening of live performance, music, dancing and craft represented the world of the Georgian Court for our visitors to Kensington in June
- The themes of 'The Wild, The Beautiful and The Damned' exhibition were further explored through promenade theatre when Aphra Benn's *The Rover* was staged at Hampton Court in the summer
- We worked with former royal jeweller Harry Collins and two goldsmiths to create an accurate replica of Henry VIII's crown that had been destroyed on Cromwell's orders along with all the other crown jewels in the 1650s. The crown went on display in the Royal Pew within the Chapel Royal at Hampton Court and proved to be very popular with our visitors
- The conserved state beds formed part of a new exhibition that opened in March: 'Secrets of the Royal Bedchamber,' which tells the story of the power and politics of the royal bedchamber. As part of the exhibition, the Prince of Wales' apartments are open to the public for the first time in 20 years

## Trustees' Report (continued)

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- We spent the year preparing a new permanent exhibition in Mint Street at the Tower of London: 'Coins and Kings' which opened in May 2013 and tells the story of the Royal Mint where it was located for over 500 years
- At the Banqueting House, a small permanent display about the execution of Charles I opened to coincide with the anniversary of the King's execution on 30th January 1649
- A new partnership with Royal Botanic Gardens Kew means that from March, for the first time, entry to Kew Palace, the Royal Kitchens and Queen Charlotte's Cottage are included at no extra charge to the price of a ticket to the gardens
- Following the opening of the Royal Kitchens at Kew, the small kitchen garden was completed, recreating the trends and styles of the Georgian era
- Our younger visitors were able to experience the first 'Kew Snooze', a sleepover at Kew Palace in October
- Total spend of £29.9m across the headings of Public Access and Interpretation and Learning represents a decrease of 10% over the previous year. This decrease also relates mostly to the investment in the Kensington project last year.

### 3. Have wider impact in the world

- We marked The Queen's Diamond Jubilee with a number of events across several palaces: the Tower received the Jubilee Diamond Crystal which went on display for visitors before being used to light the National Beacon in a ceremony in the Mall in June, 16,000 people came to Hampton Court to take part in a 50s-style Jubilee garden party, 500 Tower Hamlets residents joined other special guests on the Tower wharf for a riverside street party and 41-gun salute at the River Pageant, and Kensington Palace entertained visitors with live music and Jubilee-themed stalls
- The Jubilee theme inspired an international conference, held at Kensington Palace in June and attended by over 120 academics, 'The making of a monarchy for the modern world'
- We also played an active part in the Olympics: in early July, Lord Coe and the Constable received the Olympic medals for safekeeping at the Tower, and later in the month the Olympic torch arrived at the Tower by Royal Navy helicopter and was run round the walls by Dame Kelly Holmes, arriving a week later at Hampton Court, where a series of torchbearers carried it through the maze, gardens and palace. The torch then travelled on the royal barge *Gloriana* to the Olympic Park for the opening ceremony
- A number of international media organisations broadcast from the Tower during the Olympic period
- Our profile was further raised when the cycling time trials took place at Hampton Court, where we witnessed Bradley Wiggins win the gold medal. On the evening of the time trial event, spectators and local residents attended a *Cyclemania* party at Hampton Court involving exhibitions, films, music, performances and picnics
- In late August at Hampton Court, wheelchair tennis champion Peter Norfolk OBE was announced as the flag bearer for the GB Paralympic Team
- Our newly appointed Chief Learning & Engagement Officer has been leading the team through a comprehensive strategic review which will result in a step-change in the ambition and scale of our Learning & Engagement work and deliver new palace-based, national and digital offers for audiences of all ages
- The new learning spaces in the Clore Centre at Kensington Palace have been further developed and are in regular use by a variety of education and community groups
- A story walk was held for our early years audiences at Kensington Palace as part of National Storytelling week
- Several community groups worked with artist Sophie Layton to create a 'Community Bed' for display at Hampton Court to coincide with the 'Secrets of the Royal Bedchamber' exhibition
- The Banqueting House opened free as part of Silver Sunday, a celebratory London-wide event for the elderly
- Once again our curators featured in a number of interviews, and programmes broadcast on television and radio.

## Trustees' Report (continued)

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- Chief curator Lucy Worsley presented 'Harlots, Housewives and Heroines: A 17<sup>th</sup>-Century History for Girls' which was screened in April to coincide with the opening of 'The Wild, the Beautiful and the Damned' exhibition at Hampton Court. Lucy was twice nominated for a Royal Television Society Award and given an honorary fellowship of The Historical Society for her role in bringing history to life
- We have seen a further increase in the use of our website, with an average of nearly 13% more unique online visitors than last year, and we've broadened reach by launching a mobile format of the website and a family-friendly Palace Kids area
- Our social media impact also continues to grow. Highlights included the launch of the 'oldest timeline on Facebook' – marking over 900 years of the Tower of London's history.
- On the back of this success, our digital media team was invited to speak at the Culture Geek conference in London in March
- Our visual identity has evolved during the year. We have developed a new suite of icons and produced a new and expanded guide for staff and external partners – *Brand Matters!* – combining brand, tone of voice, Palace Personalities, web and social media in one publication.

### 4. Build one organisation united behind our Cause

- We continue our success in recruiting to key leadership roles that have had a big impact on performance, and illustrate the strength of our employer brand and employment offer
- We designed and delivered a leadership programme to develop the capabilities of our senior managers to lead high performance in their teams, and to drive action to improve customer service, efficiency, and performance management
- Visitor feedback and mystery shoppers confirmed the growing success of our 'Five Star Service' initiative at Hampton Court, Kensington and Kew Palaces, and the 'Good to Great' visitor welcome programme at the Tower
- We welcomed our first HRP-funded scholar in Heritage Science who will work with us for two years, supporting scientific research on the environmental protection of the Hampton Court tapestries
- We benefitted from an increase of 10% in the number of volunteer hours contributing to our work, which reached a total of 31,155 in the year and we now have over 300 volunteers (2012: 239)
- Volunteer hours at Kensington Palace tripled from 1,637 in 2011/12 to 5,390
- A new volunteer role in Membership helped support the growth in the number of members over the year.

### 5. Generate the money to make it all possible

- We attracted 3.5 million visitors to our palaces in 2012/13, which was an increase of 2.5% on 2011/12, and the highest number in HRP's history. This was despite the fact that we saw a sharp fall in visitor numbers through a four-week period over the Olympics in the summer
- The re-opened Kensington Place stood out by welcoming over 400,000 visitors in the year, double the level of previous years
- Our partners in the Travel Trade contributed to this, recording a record year of sales at just under £13m which was 4% higher than 2011/12
- Retail sales grew by 12% to achieve yet another record, with turnover of £11.7m. The spend per visitor & per transaction, and the gross margin achieved were all at record levels – business having been significantly boosted by sales of Jubilee and Olympic-themed product, and by the success of the newly-opened shop at Kensington. We also started to see growth in the development of our off-site business
- The Olympics helped Functions & Events achieve their highest ever sales too with the re-developed Kensington Palace once again underpinning this success, and the Tower also achieving record income levels. Total income from Functions & Events was 16% higher than 2011/12
- We completed our first major fund-raising campaign in the year, exceeding the £20m target ahead of time
- The number of HRP members reached just over 64,000 at the year-end, an increase of 31% from last year. Membership activity contributed £1.5m of income to our work (2012: £1.1m)

## Trustees' Report (continued)

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Our performance is measured by the Secretary of State by submission of the annual Strategic Plan and by this report.

### Financial Review

The number of visitors that spent a day out at one of our palaces in 2012/13 increased by 2.5% to 3.5m, the highest number in our history. The re-developed Kensington Palace was key to this growth, with 90,000 more visitors than planned, and twice the previous average.

Admissions income for 2012/13 was £45.1m – 62% of total income.

This increase to income has been added to by another strong year for the retail and functions & events businesses, income from catering & other concessions and sponsorship, all of which contributed to a 3% increase in generated funds.

Fundraising has had another successful year; attracting generous donations for our major projects. Income from grants and donations in the year reached £3.7m again, level with 2011/12.

All of this activity was achieved within budgeted expenditure and we have maintained our free reserves target of £5m.

The strong financial performance in the year has meant that we are able to designate more funds towards the cost of projects within our ambitious strategy for the next three years and beyond.

### Funds and reserves

The Trustees recognise the need to establish a level of general reserves that enables financial stability, is adequate to meet the requirements of working capital and acts as a cushion against fluctuations in income levels. Reserves thus enable HRP to make long-term commitments to projects. The Reserves Policy has been reviewed in the year in the light of HRP's updated three-year strategic plan. In determining a realistic level of reserves, several key factors are considered including the level of risk associated with the main income and expenditure streams, the adequacy of the controls in place to mitigate those risks and other contingencies available to call on in emergencies. This is balanced by the general legal duty that Trustees are under to apply income funds on the objects of the charity within a reasonable period of receiving them. Designated funds have been created to protect long-term commitments to major projects.

Following this detailed review the target level for free reserves remains at £5 million and this has been maintained at March 2013.

The charity has various funds available to finance its activities. These are as follows:

#### Restricted funds (£3.9m)

These are funds subject to specific restrictions imposed by donors that are still within the wider objects of the charity.

#### Unrestricted funds

These are funds that are expendable at the discretion of the Trustees in furtherance of the charity's objects. **Free reserves** (£5m) are that part of the unrestricted fund that are not held as fixed assets or designated for other purposes:

- **Fixed asset fund** (£12.3m)

A permanent designated fund is matched to fixed assets, as this cannot be quickly utilised to realise cash in the event this is required. The part of the general fund represented by fixed assets is therefore excluded from free reserves, as generally a charity could not dispose of all or the majority of these assets and continue its operations as a going concern.



## Trustees' Report (continued)

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- **Designated funds (£16.3m)**

Funds have been designated out of general funds to protect long-term commitments to major projects. £4.1m has been designated to complete projects in 2013/14 that were underway in 2012/13. £2.3m is designated towards the re-presentation of the Baroque Palace at Hampton Court, a series of projects to be completed over the coming 3-5 years. Further projects at Hampton Court for which funds have been set aside include a new collections storage facility (£2.1m designated) and the development of a garden designed for children and families (£0.9m designated). £1.3m is designated towards the cost of conserving the Banqueting House, work that is due to take place in 2016/17, £1.3m for the continued development of Kensington Palace and £1.5m for the development of new strategic initiatives, including Learning and Digital.

- **Pension plan (£1.4m deficit)**

This liability does not result in any immediate requirement to pay this amount to the pension scheme, and ongoing cash contributions into the scheme are met through budgeted income. The scheme was valued for funding purposes as at 1 April 2012. This valuation recorded a slight increase in the deficit, from £5.6m at 1 October 2009 to £5.9m at 1 April 2012. A revised plan to recover the historic deficit has been agreed, with an increase in annual payments to £372,000, rising by 3% a year to 2018. The ongoing employer contribution to the scheme for future-service has also increased, from 26% to 27.5%. Both of these changes were implemented from April 2013. HRP's strategic planning process allows for the pension payments to the scheme to be made from planned income each year, and therefore there is no requirement to ring fence an amount equal to the full deficit from other reserves to cover this liability. The FRS17 liability, calculated for accounting purposes, at March 2013 is £1.4million (March 2012: £1.9 million). Details of the retirement benefit scheme are disclosed in Note 8 to the accounts.

Details of the movements on total funds are disclosed in Note 5 to the accounts.

### **Equal opportunities policies**

HRP is committed to a policy of equality of opportunity in all areas of employment, including recruitment, training, performance management and promotion. To encourage diversity in the workplace, formal policies on equal opportunities, disability and harassment have been developed and communicated to all staff. General training on these policy areas is provided to staff and specific training is provided in areas such as recruitment and performance appraisals. Equality policies and practices are regularly monitored and action plans developed, if appropriate, to deal with any specific issues. In addition, we have published a Diversity Strategy and Action Plan and are making progress in increasing the diversity of our workforce.

### **Consultation with, and provision of information to, employees**

The Trustees and Directors encourage widespread consultation and exchange of information at all levels of the organisation using a range of different communication mechanisms. To facilitate information flows and discussion between the organisation and Trade Union representatives, partnership meetings are regularly held both centrally and at each palace. In addition, staff are kept up-to-date on the organisation's progress through a cascade briefing; *News from the Executive Board*, the intranet, notice boards, team briefings and a staff newsletter, *Our Story*.

### **Investment policy**

HRP's investment policy is as follows:

1. Capital preservation is the priority
2. Surplus funds are invested on the money market in the UK
3. No more than 50% is invested in any one institution, except for deposits with the Bank of England.

### **Suppliers' payment policy**

HRP observes the principles of the CBI Better Payment Practice code. The code requires bills to be paid in accordance with contractual obligations, or where no such conditions exist, within 30 days of the receipt of the goods or services, or the presentation of a valid invoice, whichever is the later. It is the policy of HRP to pay all invoices not in dispute in accordance with contractual terms.

Payments are made fortnightly and include all invoices received in Finance and due for payment by the time of the next payment run.

## Trustees' Report (continued)

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During 2012/13 67% of supplier invoices were paid within 30 days of date of invoice (63% in 2011/12) and 77% within 40 days (75% in 2011/12). This payment performance has not been adjusted for invoices which have been delayed for payment due to a query with the supplier.

### Related parties

Details of material dealings with any related parties are set out in Note 18.

### Environmental Sustainability

Conservation is at the heart of HRP's mission, so managing the estate with as little environmental impact as possible is important to us.

Energy reduction in historic buildings is challenging. Nevertheless over the years, a number of initiatives have been implemented to drive reductions in consumption of electricity, gas and water, including:

- continual improvements in electricity shut down procedures at nights and weekends
- increased use of low energy lighting and conversion to LED lighting
- draught proofing historic windows at Hampton Court
- roof space insulation installed at the three largest palaces and lagging on pipes
- grey water is used to irrigate the lawns in the moat at the Tower and flush some of the public toilets. At Hampton Court rain and river water is used for the majority of irrigation

Considerable emphasis has been placed on waste management and increased re-use and recycling over the last few years. This has resulted in all palaces reaching greater than 80% waste recycling. The following initiatives have contributed to this achievement:

- installation of dedicated well sign-posted recycling points in staff and public areas, including at large-scale events
- specific cardboard collection from the retail shops and compacting at the retail warehouse for recycling
- the Gardens and Estates department recycle all of their green waste, which is shredded and never taken off site.

We are committed to the sustainable management of habitats of wildlife conservation importance and are being considered by Natural England for designation as a Site of Special Scientific Interest.

## Report of the Remuneration Committee

### Membership

The membership of the Remuneration Committee during 2012/13 consisted of four Trustees - General the Lord Dannatt (Chairman), Liz Cleaver, Sue Farr and Jonathan Marsden. All served on the Committee throughout the year.

### Policy statement

The remit of the Remuneration Committee is governed by the legal framework of HRP as set out in the Royal Charter. In establishing the level of remuneration for each Director, the Remuneration Committee considers the guidelines laid down by the Combined Code and HM Treasury and has a remuneration policy similar to comparable and competing organisations. This policy aims to ensure that remuneration packages are in line with the general market practice and consistent with recruiting and retaining Directors of the highest calibre.

Members of the Board of Trustees receive no remuneration. However, they are entitled to claim expenses and to make charges if instructed by the Charity to apply their specialist skills or knowledge. Details are set out in Note 6 to the accounts.

### Review of activity during the year

At the Annual Salary Review in August 2012, all Directors received a 2% increase to their basic salaries. This level of increase was in line with the median settlements in the external market and with the settlement awarded to other HRP staff.

## Trustees' Report (continued)

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In addition, the Directors received a performance-related bonus for the 2011/12 period. These bonuses were awarded consistently with the Directors' performance-related bonus scheme that was introduced in August 2001 and reflected a very good year for HRP and its Directors. Actual bonus payments were calculated on the basis of the overall performance of the organisation and Directors' individual performance against agreed objectives. Performance-related bonuses for the 2012/13 period have been accrued and will be paid in accordance with the agreed scheme.

During the year the Committee reviewed the Directors' overall reward arrangements. The Committee concluded that the Director's reward philosophy, policy and practice remained 'fit for purpose' and that no changes were necessary at this time.

Details of the emoluments of the Chief Executive are set out in Note 7 to the accounts, together with information on the number of employees whose remuneration (excluding pension contributions) exceeds £60,000.

Charles Mackay CBE  
*Chairman of the Board of Trustees*  
17th June 2013

Hampton Court Palace  
Surrey  
KT8 9AU

# Governance Statement

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## The Governance framework

Details of the Trustees are given on page 1. The Board consists of a Chairman and eleven Trustees, chosen for their skills and experience. All are non-executive and unpaid.

The Chairman is appointed by The Queen on the advice of the Secretary of State. Four Trustees are appointed by The Queen, of whom three are ex officio appointments: The Director of the Royal Collection; The Keeper of the Privy Purse; and The Lord Chamberlain. The Lord Chamberlain may choose to relinquish his appointment, in which case The Queen may appoint someone to take his place, as currently. The remaining seven are appointed by the Secretary of State, two of whom must be the Constable of the Tower of London and the Chairman of the Campaign Board.

The appointments are part-time and last initially for three years. Under the Royal Charter, with the exception of ex officio appointments, Trustees may be appointed for a further two periods of up to three years, subject to review at the end of each period. Third appointments are only made exceptionally.

Trustees are recruited through advertisement, by using existing contacts, by further research and through executive search. New Trustees are supported through an induction process tailored to their needs and experience. This includes meetings, visits and a substantial amount of written material on their responsibilities as a Trustee of both a charity and a public body, and about the organisation.

The Chief Executive is granted a general delegation to act on behalf of the Trustees, except for matters reserved by the Trustees for decision by the Board or its committees. Such matters include approval of strategic plans, annual budgets and major projects, remuneration of the Directors and variation to governing documents.

The Trustees and Chief Executive (as Accounting Officer) are jointly responsible for maintaining a sound system of internal control that:

- supports the achievement of HRP's Cause and Strategy, whilst;
- safeguarding the public funds and assets for which the Accounting Officer is personally responsible, in accordance with the responsibilities assigned in *Managing Public Money*; and
- ensuring compliance with HRP's Management Statement and Financial Memorandum.

The Audit Committee is a sub-committee of the Board of Trustees and reports annually to the Board on the adequacy of HRP's arrangements for risk management and internal control. During the year the following Trustees served on the committee: Dawn Austwick (Chair), Sophie Andreea and Malcolm Reading. Anupam Ganguli is a co-opted member of the committee.

Oversight of investment activities is provided by an Investment Committee, whose remit includes reviewing the balance of risk/return, and the impact of external factors. During the year the committee comprised four Trustees: Sir Adrian Montague (Chairman), Charles Mackay, Sir Alan Reid and Ian Barlow, and two members of the Executive Board: Michael Day and Tania Fitzgerald.

Remuneration policy for the Chief Executive and Directors of HRP is agreed by the Remuneration Committee which usually meets three times a year. The committee was chaired by General the Lord Dannatt. Other Trustees who served on the committee were Sue Farr, Jonathan Marsden and Liz Cleaver.

The Nominations Committee reviews Trustee succession and ensures the appropriate balance of competencies, skills, experience and diversity on the Trustee Board. Membership of the committee includes the Chairman, the Deputy Chairman, Chair of Remuneration Committee and two other Trustees. For the year ended 31 March 2013 this was; Charles Mackay (Chairman of Committee), Sir Alan Reid, General the Lord Dannatt, Dawn Austwick and Sue Farr.

The terms of reference for each committee are agreed by the Board.

## Governance Statement (continued)

The work of the Board is further supported by one outside Committee, the Campaign Board, which brings special expertise on fundraising to HRP. The Chairman of this Board is Ian Barlow and two other Trustees (Sue Farr and Sir Trevor McDonald) also serve on it. Other Campaign Board members are external people with expertise in this area.

Further Trustee input to HRP's work comes through advisory groups where Trustees bring their expertise and work with members of the Executive Team to advise on particular areas such as major projects. During 2012/13, our work was supported by an Interpretation Committee which advised on the governance of interpretation.

Attendance at Board and Committee meetings is monitored and discussed with each Trustee as part of the annual Board effectiveness review meetings. Attendance at Trustee Board meetings over the year was 86% (2012: 85%). There was 89% attendance at Audit Committee this year (2012: 89%), 92% attendance at Investment Committee (2012: 75%), Remuneration Committee attendance was 92% (2012: 90%) and 100% attendance at Nominations Committee (2012: 100%).

The attendance record of individual Trustees is summarised in the table below:

	Board	Audit Committee	Investment Committee	Remuneration Committee	Nominations Committee
Charles Mackay	7/7		3/3		2/2
Sir Alan Reid	6/7		2/3		2/2
Sophie Andreae	7/7	2/3			
Dawn Austwick	7/7	3/3			2/2
Ian Barlow	5/7		3/3		
Liz Cleaver	7/7			2/3	
General the Lord Dannatt	5/7			3/3	2/2
Sue Farr	6/7			3/3	2/2
Jonathan Marsden	5/7			3/3	
Sir Trevor McDonald	5/7				
Sir Adrian Montague	6/7		3/3		
Malcolm Reading	6/7	3/3			

HRP has a Chief Executive and an Executive Board of seven Directors. The Executive Board's role is to develop and deliver the Cause and Strategy.

### The Board's performance

The effectiveness of the Trustee Board and its Committees is formally reviewed each year. Every third year Trustees complete a detailed questionnaire and in the intervening two years the Chairman holds an update discussion with each Trustee.

The meetings between the Chairman and each Trustee also cover the performance of those individual Trustees and feedback on the Chairman's own performance is sought.

The final part of the effectiveness review process is a short report summarising the views of the Executive Board on the way the Trustee Board functions and its working relationship with the Executive.

## Governance Statement (continued)

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Each year the Chairman produces a report covering all aspects of Board effectiveness, based on the process outlined above, updating the position on actions agreed the previous year and identifying actions to take forward in the current year. This report and its findings are discussed annually and actions agreed at a Board meeting. All actions from last year's review have now been implemented. This year Trustees are completing the questionnaire and the outcome of the review will be discussed at the Board meeting in July 2013.

### Highlights of board committee reports

The Trustee Board meets seven times a year. Each Board meeting agenda follows the same core structure which is; strategic development, projects & expenditure, monitoring performance, and organisation & governance. Of the seven meetings, five are used to focus on each of the five strategic aims (see page 3). Of the two remaining meetings, one is to review and approve the updated three-year Strategic Plan and Annual Operating Plan & Budget, and the final meeting is for Trustees to approve the Annual Review and Annual Report & Accounts.

Minutes of Trustees meetings are published on our website once approved by the Board.

At the start of each annual strategic planning process, Trustees hold a separate meeting to discuss strategy and to inform the planning process. This meeting is not formally minuted and therefore the output is not published.

The financial performance of the organisation is reviewed at each Trustee meeting through a summary management information pack that reports key aspects of financial performance but also key non-financial organisational performance indicators, and is supported by commentary explaining variances and highlighting issues requiring attention or action. Updates on, and any significant issues with, major projects are also provided at each meeting.

Minutes from meetings of committees of the Board are reviewed by Trustees with Committee Chairs.

The scheme for delegating authority reserves a number of matters for decision by Trustees. These matters are considered at Board meetings and include approval of expenditure above a certain limit. Variations to budgeted expenditure of more than 10% on any project are also referred to the Board for approval.

During 2012/13, inter alia, the Board agreed a revised approach for the governance of Interpretation, and approved a new methodology for the governance of Conservation. The latter was based on revised analysis for determining the State of the Estate which considers the key governance questions of priority, progress, quality and value. Trustees also contributed to developing strategies in a number of key areas; the second major fund-raising strategy: *Campaign II*, an evolution of HRP's Brand, retail off-site, pension benefit provision, learning & engagement, development of our domestic market and digital, and received updates on progress with major projects including a 'magic' garden for Hampton Court Palace. Approval was given for an exhibition of 'Coins and Kings: The Royal Mint at the Tower', the second phase of work at the Royal Kitchens Kew, a new collections storage facility and conservation projects including the Buttery roof & estate railings at Hampton Court and the Bowyer Tower at the Tower of London. In March, Trustees approved a new operating agreement with the Royal Botanic Gardens at Kew (RBGK) that will result in visitor entry to HRP properties at Kew at no extra charge. Trustees also approved work, with positive intent, to investigate partnership opportunities at Hillsborough Castle in Northern Ireland and the Pagoda in Kew Gardens, working with the Northern Ireland Office and RBGK respectively.

Audit Committee agendas are similarly structured considering matters of risk management, the external audit and internal audit plans and progress. Progress with all major projects is reported at each meeting using red/amber/green indicators to highlight the status of each project. The committee met three times in the year to March 2013 and, in addition to its normal business, undertook detailed reviews of risk management in three key areas of HRP's work: visitor operations, major incident planning & salvage arrangements, and development/fundraising.

## Governance Statement (continued)

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The Investment Committee met in July, November and March. The committee reviewed HRP's investments at each meeting and concluded that the current strategy remains relevant. The committee also provided advice to the Pension Scheme Trustees on scheme investment strategy.

The Campaign Board supported the successful completion of HRP's first fundraising campaign in the year, delivering £20m of income over five years.

### Corporate governance

The palaces in HRP's care are owned by The Queen "in right of crown" and the Government is responsible for their management. HRP was established by Royal Charter in 1998 and the Royal Charter Body obtained registration as a charity and entered into a contract with the Secretary of State for the Department for Culture, Media and Sport to manage the palaces on her behalf. HRP was reclassified as a Public Corporation on 1st April 2005.

HRP's governance reflects this structure. We are directly accountable to the Charity Commission through the Chairman and Trustees but also accountable to Government through the Chief Executive (as Accounting Officer). The contract with Government includes a management statement and a financial memorandum with which we comply.

HRP is only obliged to comply with relevant aspects of the Corporate Governance Code and we comply with the elements that are relevant to us as a public corporation and a charity. HRP is also subject to the Freedom of Information Act.

### Quality of the data

The structured approach to board meetings ensures that all aspects of HRP's performance are reviewed regularly and to an appropriate level. Reports are supported with data, including comparisons to other organisations in our sector where applicable.

Board agendas are drafted in discussion with the Chief Executive and the Chairman. The Board Secretary also prepares minutes, and matters arising are reviewed at each subsequent meeting.

### Risk assessment

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve HRP's Cause and Strategy; 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 departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised & the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in HRP for the year ended 31 March 2013 and up to the date of approval of the Annual Review and Accounts, and accords with Treasury guidance.

Internal Audit is responsible for the ongoing examination of and the reporting on the adequacy and effectiveness of HRP's risk management process. The Head of Internal Audit provides an annual report to the Chief Executive Officer (CEO)/Accounting Officer and the Audit Committee on the adequacy and effectiveness of the risk management process, internal control and corporate governance in the year. His opinion for the year to March 2013 was that HRP has a good framework of risk management, control and governance that is sufficiently well embedded in most areas to guard against serious irregularity, impropriety and waste of the organisation's resources.

HRP's management of risk is embedded in policymaking, planning and delivery in the following ways:

- The Internal Audit Department takes a risk-based approach to audits and operates in compliance with Public Sector Internal Audit Standards (except where this is impractical for this small department);
- Progress in implementing internal audit recommendations is monitored by the Executive Board and the Audit Committee;

## Governance Statement (continued)

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- The organisation has a project assessment and approval process which requires risk assessments to be done on all major projects;
- The Finance Director has been appointed Senior Information Risk Owner, and takes responsibility for the management of information risk;
- The Security Adviser provides an annual internal and external security threat analysis which is reported to the Board;
- Regular reviews are made of health and safety, environmental and security risks, and the implementation of related policies and procedures. An annual report is provided to the Board;
- A fraud risk profile is updated annually by Directors and reviewed by the Audit Committee;
- New activities and changes to existing processes are routinely reviewed to ensure that adequate controls are in place;
- The IT systems and network are managed in compliance with BS7799 information security standard (except where this is impractical for this small department);
- All staff are made aware of the Data Protection Act when they join the organisation. In addition, staff receive specific training on areas relevant to their roles and are regularly reminded of the need for vigilance in the handling of all forms of data, particularly personal and financial information.

Strategic leadership of the risk management process comes from the Executive Board, and the Trustees and Accounting Officer oversee the process. The CEO reports annually to the Board of Trustees on the effectiveness of the internal control system established to ensure that the aims, objectives and key performance targets of HRP are achieved in the most economic and effective manner.

The Executive Board:

- assesses risks and opportunities annually as part of the Annual Operating Plan process (looking forward);
- provides assurance to the CEO/Accounting Officer about the effectiveness of risk management in their annual letters of representation (looking back);
- as the Risk Committee, develops HRP's risk management policy and is responsible for communicating it to staff; maintains the risk register, monitors change in the corporate risk profile and reports significant changes to the Trustees (ongoing).

Directors, managers and staff are responsible for identifying, assessing and managing the corporate operational risks in their areas.

The Audit Committee is responsible for reviewing management's mechanisms for the assessment and management of risk, the planned activity of external and internal audit and the results of their work, the adequacy of management's responses to issues identified by audit activity and the adequacy of assurances relating to corporate governance.

At 31 March, HRP had one 'red' status risk on the risk register which was: *a major unpredictable event that shifts visitor/trading activity significantly or has significant cost implications*. This risk has ongoing 'red' status due to the possible scale of impact and the continuing likelihood of an event (e.g. terrorist activity) that would have such impact. The organisation has a Major Incident Plan and an operational/financial contingency plan which covers the response in the event of such an incident.

Three risks were considered to have 'amber' status at the year-end: *HRP's conservation reputation damaged* - until the recommendations from an audit of collections management have been implemented, *Insufficient staff capacity to deliver programmes* - while work is ongoing to match resources to the ambitions of the 2013/14 annual operating plan, and *Information systems; failure of key systems that inhibit our ability to operate* - until work in hand to address single points of failure in the IT infrastructure has been completed (such as second resilient data links at both Hampton Court and the Tower). It is expected that all these risks will return to 'green' in 2013/14.



## Governance Statement (continued)

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A key risk for the delivery of the 2013/14 annual operating plan is the continuing uncertainty caused by the global economic situation, and instability in the Eurozone in particular. Financial contingency plans are in place to mitigate the impact of this risk, should it crystallise, such as the inclusion of a substantial income contingency in the budget for the year.

Some of the improvements to the management of risk during the year include:

- HRP's Strategic Plan has been updated for the three years to March 2016. This also involved identifying key strategic risks and opportunities for each department;
- The *Statement of Intent*, setting out demanding organisational ambitions for 2020, was updated;
- An internal quality review of Internal Audit was completed in the year which identified a number of recommendations, the majority of which have now been implemented. Internal Audit will be subject to an externally resourced, independent review in 2013;
- The Head of Internal Audit has commenced a process of mapping third party assurance available to directors and senior managers;
- We have created, for the first time, an overarching Security Philosophy for HRP. This covers the scope, standards, responsibilities, and risk management approach for our security work;
- The Security Adviser conducted a formal annual security inspection of all palaces and departments. These showed that all elements have an appropriate response to security threats and are in compliance with HRP security instructions;
- The physical security improvement programme has been completed and a number of additional items of security equipment were installed in response to new requirements;
- An advisory visit from the Security Service's Centre for the Protection of National Infrastructure took place in March 2013 and this concluded that security was of a good standard and appropriate measures to meet new requirements were in hand;
- Compliance with Payment Card Industry (PCI) Data Security Standards has now been achieved. Quarterly reviews will take place to ensure that the compliance environment has not changed or been compromised;
- There have been no incidents of data loss in the year;
- The Fire, Health & Safety Adviser was able to conclude at the year end that the overall management of the HS&E risks HRP is exposed to is satisfactory, and that we have reached satisfactory levels of compliance with relevant legislation.

### Review of Effectiveness

The Trustees and Accounting Officer have responsibility for reviewing the effectiveness of the system of internal control. The review is informed by the work of the internal auditors and the Executive Board 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 Trustees and Accounting Officer have carried out this review through the mechanisms set out in the previous section. A plan to address any weaknesses and ensure continuous improvement of the system is in place.

### Significant internal control issues

The risk management, governance framework and controls covering HRP's collections of heritage assets were subject to an internal audit in the year, and some aspects were found not to be functioning properly. Management understand these deficiencies and appropriate actions are now being implemented, including the employment of additional dedicated resource.

Charles Mackay CBE  
Chairman of the Board of Trustees  
17th June 2013

Michael Day  
Chief Executive and Accounting Officer

# Statement of Responsibility

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## Statement of Trustees' responsibilities

Law applicable to incorporated charities in England and Wales requires the Trustees of HRP to prepare (or have prepared) financial statements for each financial year that give a true and fair view of the state of affairs of the Charity and the Group and of their financial activities during the year. In preparing those financial statements, the Trustees are required to:

- select suitable accounting policies and apply them consistently;
- 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 being disclosed and explained in the financial statements;
- ensure that the financial statements are prepared on the going concern basis unless it is inappropriate to assume that the Charity and the Group will continue in operation.

The Trustees are required to follow the Accounts Direction issued by the Secretary of State for Culture, Media and Sport, and are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Charity and which enable them to ensure that the financial statements comply with the Charities regulations and relevant Generally Accepted Accounting Practice. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Charles Mackay CBE  
Chairman of the Board of Trustees  
17th June 2013

## Accounting Officer's responsibilities

The Accounting Officer for the Department for Culture, Media and Sport has designated the Chief Executive as the Accounting Officer for the Charity. His 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 *Managing Public Money* published by HM Treasury. He is also required to follow the Accounts Direction issued by the Secretary of State for Culture, Media and Sport.

The Accounting Officer confirms that so far as he is aware, there is no relevant audit information of which HRP's auditors are unaware and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that HRP's auditors are aware of that information.

Michael Day  
Chief Executive and Accounting Officer  
17th June 2013

# Independent Auditor's Report to the Trustees of Historic Royal Palaces

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I have audited the financial statements of Historic Royal Palaces for the year ended 31 March 2013. The financial statements comprise: the Consolidated Statement of Financial Activities, the Consolidated and Charity Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Board of Trustees, Accounting Officer and auditor

As explained more fully in the Statement of Responsibility, the Board of Trustees and the Chief Executive as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Historic Royal Palaces' and the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Historic Royal Palaces; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Trustees' Report, Governance Statement and Statement of Responsibility to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the resources expended and incoming resources recorded in the financial statements have been applied to the purposes intended and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on regularity

In my opinion, in all material respects the resources expended and incoming resources recorded in the financial statements have been applied to the purposes intended and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of Historic Royal Palaces' affairs as at 31 March 2013 and of the group's and Historic Royal Palaces' incoming resources and application of resources for the year then ended; and
- the financial statements have been properly prepared in accordance with the Charities Act 2011 and Secretary of State directions issued with the approval of HM Treasury.

## Opinion on other matters

In my opinion:

- the information given within the Trustees' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Independent Auditor's Report to the Trustees of Historic Royal Palaces (continued)

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### Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

20<sup>th</sup> June 2013

# Consolidated Statement of Financial Activities

## for the year ended 31 March 2013

	Note	Unrestricted funds £000	Restricted funds £000	Total 2013 £000	Total 2012 £000
<b>INCOMING RESOURCES</b>					
<b>Incoming resources from generated funds:</b>					
Voluntary income					
Grants and donations	5	1,842	1,869	3,711	3,711
Activities for generating funds					
Retail income		11,701	-	11,701	10,441
Functions and events		6,020	-	6,020	5,186
Licences and rents		2,853	-	2,853	3,009
Sponsorship		388	-	388	1,701
		<b>20,962</b>	<b>-</b>	<b>20,962</b>	<b>20,337</b>
Investment income		503	-	503	478
<b>Incoming resources from charitable activities:</b>					
Admissions		45,079	-	45,079	42,767
Concessions		2,101	-	2,101	1,777
<b>Total incoming resources</b>		<b>70,487</b>	<b>1,869</b>	<b>72,356</b>	<b>69,070</b>
<b>RESOURCES EXPENDED</b>					
<b>Costs of generating funds:</b>					
Fundraising		1,099	-	1,099	918
Retail activities		9,059	-	9,059	8,466
Other commercial activities		3,043	-	3,043	2,692
		<b>13,201</b>	<b>-</b>	<b>13,201</b>	<b>12,076</b>
<b>Charitable activities:</b>					
<i>Give the palaces the care they deserve</i>		16,366	872	17,238	19,985
<i>Transform the way visitors explore their story:</i>					
Public access		18,952	1,036	19,988	24,216
Interpretation and learning		9,864	58	9,922	8,960
<i>Have a wider impact in the world</i>		5,127	-	5,127	4,490
<b>Governance costs</b>	4	489	-	489	428
		<b>50,798</b>	<b>1,966</b>	<b>52,764</b>	<b>58,079</b>
<b>Pension finance (income)/costs</b>	8	(487)	-	(487)	(507)
<b>Total resources expended</b>	3	<b>63,512</b>	<b>1,966</b>	<b>65,478</b>	<b>69,648</b>
<b>Net incoming/(outgoing) resources before transfers</b>		<b>6,975</b>	<b>(97)</b>	<b>6,878</b>	<b>(578)</b>
Actuarial (loss) on pension plan	8	(613)	-	(613)	(1,955)
<b>Net movement in funds</b>		<b>6,362</b>	<b>(97)</b>	<b>6,265</b>	<b>(2,533)</b>
<b>Fund balances brought forward at 1 April</b>	5	<b>25,819</b>	<b>4,041</b>	<b>29,860</b>	<b>32,393</b>
<b>Fund balances carried forward at 31 March</b>	5	<b>32,181</b>	<b>3,944</b>	<b>36,125</b>	<b>29,860</b>

The amounts shown above derive from continuing activities. There were no recognised gains or losses other than those disclosed above. The notes on pages 23 to 43 form an integral part of these accounts.

## Consolidated and Charity Balance Sheets as at 31 March 2013

		Group 2013	Charity 2013	Group 2012	Charity 2012
	Note	£000	£000	£000	£000
<i>Fixed assets:</i>					
Intangible assets	9	69	69	37	37
Tangible assets	10	8,769	8,769	8,428	8,428
Heritage assets	11	5,473	5,473	5,172	5,172
		<b>14,311</b>	<b>14,311</b>	<b>13,637</b>	<b>13,637</b>
<i>Current assets:</i>					
Stocks - goods for resale		1,343	-	1,532	-
Debtors	12	5,048	6,725	4,498	5,388
Short-term cash deposits		21,026	21,026	18,000	18,000
Cash at bank and in-hand		5,672	4,042	7,330	6,539
		<b>33,089</b>	<b>31,793</b>	<b>31,360</b>	<b>29,927</b>
<i>Creditors:</i>					
Amounts falling due within one year	13	9,547	8,251	13,160	11,727
<b>Net current assets</b>		<b>23,542</b>	<b>23,542</b>	<b>18,200</b>	<b>18,200</b>
<b>Total assets less current liabilities</b>		<b>37,853</b>	<b>37,853</b>	<b>31,837</b>	<b>31,837</b>
<i>Provision for liabilities and charges</i>	14	314	314	110	110
<b>Net assets excluding Pension Plan liability</b>		<b>37,539</b>	<b>37,539</b>	<b>31,727</b>	<b>31,727</b>
<i>Pension Plan liability</i>	8	1,414	1,414	1,867	1,867
<b>Net assets including Pension Plan liability</b>		<b>36,125</b>	<b>36,125</b>	<b>29,860</b>	<b>29,860</b>
Unrestricted funds		32,181	32,181	25,819	25,819
Restricted funds		3,944	3,944	4,041	4,041
<b>Total funds</b>	5	<b>36,125</b>	<b>36,125</b>	<b>29,860</b>	<b>29,860</b>

These financial statements were approved by the Trustees and the Accounting Officer on 17th June 2013 and were signed on their behalf by:

Charles Mackay CBE  
Chairman of the Board of Trustees

Michael Day  
Chief Executive and  
Accounting Officer

The notes on pages 23 to 43 form an integral part of these accounts.

## Consolidated Cash Flow Statement for the year ended 31 March 2013

	2013 £000	2012 £000
Cash flow statement		
Net cash inflow from operating activities (note A below)	2,882	1,186
Returns on investment and servicing of finance:		
Interest received	503	478
Taxation paid	(1)	(3)
Investing activities:		
Purchase of tangible assets	(1,775)	(4,120)
Purchase of intangible assets	(50)	(9)
Purchase of heritage assets	(191)	(57)
Proceeds from sale of fixed assets	-	1
Management of liquid resources:*		
Net (purchase)/sale of short-term deposits	(3,026)	5,000
<b>(Decrease)/Increase in cash</b>	<b>(1,658)</b>	<b>2,476</b>

<i>Note A : Reconciliation of net incoming resources to net cash inflow from operating activities</i>	2013 £000	2012 £000
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Net incoming /(outgoing) resources from charitable and trading activities	6,878	(578)
Interest receivable	(503)	(478)
Taxation	4	1
Pension scheme: non-cash movements	(613)	(1,955)
Donated heritage assets	(110)	(140)
Depreciation	1,388	1,127
Loss on disposal of fixed assets	61	173
Decrease/(Increase) in stocks	189	(211)
(Increase) in debtors	(550)	(757)
(Decrease)/Increase in creditors: current liabilities	(3,613)	3,316
Increase/(Decrease) in provisions for liabilities and charges	204	(165)
(Decrease)/Increase in pension plan liability	(453)	853
<b>Net cash inflow from operating activities</b>	<b>2,882</b>	<b>1,186</b>

### *Analysis of net funds*

	2013 £000	2012 £000	Change in year £000
Cash at bank and in hand	5,672	7,330	(1,658)

\* Liquid resources include term deposits of less than a year

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 1 Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Charity, Historic Royal Palaces (HRP), and its trading subsidiary, Historic Royal Palaces Enterprises Ltd (HRPE), together 'the Group'.

- a) **Status of charity**  
HRP is a registered charity established by Royal Charter.
- b) **Basis of preparation**  
The financial statements have been prepared in accordance with the *Statement of Recommended Practice (SORP): Accounting and Reporting by Charities* published in March 2005, applicable accounting standards and the Charities Act 2011. The financial statements have been prepared under the historic cost convention. They have been prepared in accordance with the Accounts Direction, a copy of which can be obtained from the Charity and Company Secretary. No separate statement of financial activities has been presented for the Charity alone as permitted by paragraph 397 of the SORP.
- c) **Basis of consolidation**  
The Group accounts consolidate HRP and its subsidiary undertaking, HRPE, which has a co-terminous year end. Consolidation has been carried out on a line-by-line basis.
- d) **Funds**  
Incoming resources and resources expended are allocated to particular funds according to their purpose.  
**Unrestricted fund** --the unrestricted fund includes income from admissions, donations and other income received without restriction including retained profits of HRPE. Unrestricted funds are available for use at the discretion of the Trustees in furtherance of the general objectives of the charity. Trustees may earmark unrestricted funds for a particular project or use, without restricting or committing the funds legally. Such amounts are known as designated funds.  
**Restricted funds** - restricted funds include those receipts which are subject to specific restrictions imposed by donors, including grants towards specific conservation and improvement projects undertaken at the palaces.
- e) **Incoming resources**  
All incoming resources are included in the SOFA when the Group is legally entitled to the income and the amount can be quantified with reasonable accuracy. The following specific policies apply to categories of income:
- Grants - where related to performance and specific deliverables, are accounted for as the Group earns the right to consideration by its performance. Where income is received in advance of performance its recognition is deferred and included in creditors. Where entitlement occurs before income is received the income is accrued.
  - Gifts in kind - where donated to the Group are included as income at market value at the time of receipt.



# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 1 Accounting Policies (continued)

### f) Resources expended

All expenditure is accounted for on an accruals basis and has been classified under the principal categories of 'costs of generating funds' and 'charitable activities'. The expenditure classifications comprise direct expenditure, including staff costs, attributable to the activity. Governance costs are the costs associated with the governance arrangements of the Charity which relate to the general running of the Charity as opposed to those costs associated with fundraising or charitable activity. Included within this category are costs associated with the strategic as opposed to the day-to-day management of the Charity's activities.

Support costs, which include functions such as Human Resources, Accounting, Payroll, Procurement and Information Systems are allocated across the categories of costs of generating funds, charitable activities and governance costs. The basis of the cost allocation is explained in note 4 to the accounts.

### g) Intangible fixed assets

Bought-in software licences costing more than £5,000 are capitalised and included at cost within intangible assets. Depreciation is provided to write off their cost by equal instalments over their 5 year useful economic lives.

### h) Tangible fixed assets

From 1 April 2006 tangible fixed assets costing more than £5,000 are capitalised and included at cost. Prior to 1 April 2006 assets costing more than £2,000 were capitalised and included at cost. Assets are capitalised at a value net of VAT as, in accordance with SSAP 5, it is not practicable to include. All expenditure on repairing and maintaining the original fabric of the buildings and on non-revenue generating improvements is written off in the year incurred. All improvements to the fabric of the buildings, with the aim of raising or increasing revenue, are capitalised. New buildings constructed by the Charity are depreciated over a period of 20 years. Assets purchased by or gifted to the Charity's predecessors prior to September 1989 have not been capitalised.

Depreciation is provided to write off the cost of tangible fixed assets by equal instalments over their useful economic lives as follows:

New buildings	20 years
Building refurbishments	10 years
Fixtures and fittings	10 years
Plant and machinery	10 years
Furniture and equipment	10 years
Exhibitions	5 years
Vehicles	5 years
Computer software	5 years
Computer hardware	5 years

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 1 Accounting Policies (continued)

### i) Heritage Assets

SORP 2005 defined an additional category of assets: Heritage Assets. These are defined as assets of historical and artistic importance that are held to advance preservation, conservation and the educational objectives of the Charity. Those heritage assets acquired since September 1989 are reported in the balance sheet at cost or, in the case of donated assets, at an approximate valuation estimated by HRP's curators to be an appropriate market value at the time of acquisition. Such assets are not depreciated as they are deemed to have indeterminate lives and a high residual value. Regular impairment reviews of heritage assets are undertaken.

Those items that were purchased by or gifted to the Charity's predecessors prior to September 1989 have not been capitalised. These comprise the majority of the collection but Trustees do not consider that relevant cost or valuation information can be obtained at a cost commensurate with the benefit to readers of the financial statements. This is because of the diverse nature of the assets held, the volume, and the lack of comparable market values.

Further information about HRP's total collection of heritage assets is set out in Note 11.

### j) Investment in subsidiary

In the Charity's accounts, the investment in its subsidiary undertaking, HRPE, is stated at cost.

Historic Royal Palaces Inc is a US-based private non-operating foundation. This is not consolidated into the Group accounts as it is not controlled by the Charity.

### k) Stocks

Stock consists of purchased goods for resale. Stock is stated at the lower of cost and net realisable value. Cost of sales is determined on a weighted average cost basis and includes all costs of purchase such as associated transportation charges.

### l) Financial instruments

HRP carries financial instruments in the form of cash, debtors and creditors at fair value, other than where a provision for specific doubtful debts has been made. Since almost all of these are expected to be realised within one year, there is no material difference between fair value, amortised cost and historical cost.

### m) Leases

The Group has no finance leases. Costs relating to operating leases are charged in the Statement of Financial Activities over the life of the lease.

### n) Pensions

The Charity operates a funded pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of HRP. From October 2002 the scheme was closed to new members. A Group personal pension scheme based on defined contributions was established for new members of staff with effect from this date. The cost to HRP is the contributions paid during the year.

The Charity has implemented the full reporting requirements of FRS17: Retirement Benefits in relation to the defined benefit scheme. The resulting deficit is treated as an unrestricted fund.

### o) Taxation

As a charity, the Charity is exempt from corporation tax under section 505 ICTA 1988. HRPE passes its profits before tax by Gift Aid to the Charity to leave reserves at or close to nil.

Admissions to the palaces administered by HRP are exempt from VAT under Schedule 9 of the VAT Act 1994. Due to this exemption, approximately 65% of VAT incurred by HRP is irrecoverable.

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 2. Historic Royal Palaces Enterprises Ltd

The Charity has one wholly owned trading subsidiary, Historic Royal Palaces Enterprises Limited (HRPE), with a paid-up share capital of £2. HRPE is incorporated in the UK. The principal activities of the company are retailing and functions and other events held at the palaces managed by the Charity. A summary of its trading results and its net assets is shown below. Audited accounts are filed with the Registrar of Companies.

	2013	2012
	£000	£000
<b>Profit and loss account</b>		
Turnover (activities for generating funds)	19,593	18,732
Cost of sales (costs of generating funds)	(4,212)	(3,747)
<b>Gross profit</b>	<b>15,381</b>	<b>14,985</b>
Administrative expenses	(10,138)	(9,651)
Interest receivable	1	1
<b>Net profit</b>	<b>5,244</b>	<b>5,335</b>
Amount passed as Gift Aid to HRP	(5,240)	(5,334)
Taxation	(4)	(1)
<b>Retained in subsidiary</b>	<b>-</b>	<b>-</b>
	2013	2012
	£000	£000
<b>Balance Sheet as at 31 March 2013</b>		
Stocks - goods for resale	1,343	1,532
Debtors	896	1,881
Cash	1,630	790
Current liabilities	(3,869)	(4,203)
<b>Net assets</b>	<b>-</b>	<b>-</b>
<b>Share capital and reserves</b>	<b>-</b>	<b>-</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 3. Total resources expended

	Total direct costs £000	Allocation of support costs £000	Total 2013 £000	Total 2012 £000
<b>Costs of generating funds</b>				
<b>Generating the money to make it possible</b>				
Fundraising	1,001	98	1,099	918
Retail activities	8,120	939	9,059	8,466
Other commercial activities	2,785	258	3,043	2,692
	<b>11,906</b>	<b>1,295</b>	<b>13,201</b>	<b>12,076</b>
<b>Charitable expenditure</b>				
<i>Give the palaces the care they deserve</i>	15,762	1,476	17,238	19,985
<i>Transform the way visitors explore their story:</i>				
Public access	17,530	2,458	19,988	24,216
Interpretation and learning	9,053	869	9,922	8,960
<i>Have a wider impact in the world</i>				
Governance costs (see Note 4)	456	33	489	428
	<b>47,571</b>	<b>5,193</b>	<b>52,764</b>	<b>58,079</b>
Pension finance (income)/costs	(487)	-	(487)	(507)
<b>Total</b>	<b>58,990</b>	<b>6,488</b>	<b>65,478</b>	<b>69,648</b>

<b>Resources expended include charges for:</b>	Total 2013 £000	Total 2012 £000
Auditors' remuneration:		
Audit		
- HRP	26	26
- HRPE	18	18

The auditors did not provide any non-audit services

Hire of:		
Computers	92	108
Plant and machinery	138	110
Other	338	406

Depreciation written off owned fixed assets:		
Tangible	1,370	1,093
Intangible	18	34

Corporation tax	4	1
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# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 4. Support and governance costs

	Human Resources £000	Information Systems £000	Finance Department £000	Employee Services £000	Manage- ment Costs £000	Total 2013 £000	Total 2012 £000
<b>Costs of generating funds</b>							
Fundraising	14	38	37	2	7	98	73
Retail activities	136	365	355	21	62	939	784
Other commercial activities	34	91	113	5	15	258	197
<b>Charitable expenditure</b>							
<i>Give the palaces the care they deserve</i>	203	542	607	32	92	1,476	1,404
<i>Transform the way visitors explore their story:</i>							
Public access	470	1,258	443	74	213	2,458	2,348
Interpretation and learning	141	376	266	22	64	869	722
<i>Have a wider impact in the world</i>	33	90	214	5	15	357	264
Governance costs	6	15	8	1	3	33	27
<b>Total</b>	<b>1,037</b>	<b>2,775</b>	<b>2,043</b>	<b>162</b>	<b>471</b>	<b>6,488</b>	<b>5,819</b>

The bases of apportionment in the above table are:

Human Resources	staff headcount (see Note 7)
Information Systems	staff headcount (see Note 7)
Finance Department	expenditure excluding payroll
Employee Services	staff headcount (see Note 7)
Management Costs	staff headcount (see Note 7)

### Governance costs

Governance costs include internal and external audit fees, Trustees' meeting expenses and management costs relating to the Trustees.

	Total 2013 £000	Total 2012 £000
Internal and external audit	211	203
Trustee costs	55	9
Production of annual report	4	5
Management costs	186	184
Support costs	33	27
	<b>489</b>	<b>428</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 5. Total funds

	Funds as at 1 April 2012	Incoming resources	Resources expended	Revaluations	Transfers between funds	Funds as at 31 March 2013
	£000	£000	£000	£000	£000	£000
<b>Unrestricted funds</b>						
<b>General (Free) reserves</b>	5,000	67,478	(61,569)	-	(5,909)	5,000
Designated funds	10,917	-	-	-	5,345	16,262
Fixed assets	11,769	-	-	-	564	12,333
Pension plan	(1,867)	3,009	(1,943)	(613)	-	(1,414)
<b>Total</b>	<b>25,819</b>	<b>70,487</b>	<b>(63,512)</b>	<b>(613)</b>	<b>-</b>	<b>32,181</b>
<b>Restricted funds</b>						
Donated assets	1,868	110	-	-	-	1,978
Fortress project at the Tower of London	1,457	-	(389)	-	-	1,068
Middle Drawbridge project at the Tower of London	606	-	(31)	-	-	575
Baroque Palace project at Hampton Court Palace	-	150	-	-	-	150
Home Park Meadows project at Hampton Court Palace	-	162	(133)	-	-	29
Kensington Palace Development	36	1,319	(1,355)	-	-	-
Other projects	74	128	(58)	-	-	144
<b>Total</b>	<b>4,041</b>	<b>1,869</b>	<b>(1,966)</b>	<b>-</b>	<b>-</b>	<b>3,944</b>
<b>Total funds</b>	<b>29,860</b>	<b>72,356</b>	<b>(65,478)</b>	<b>(613)</b>	<b>-</b>	<b>36,125</b>

### Designated funds

Funds have been designated out of general reserves to protect expenditure on long-term commitments to major projects, including:

- £4.1m to complete projects in 2012/13 that were underway in 2011/12
- £2.3m towards the re-presentation of the Baroque Palace at Hampton Court, a series of projects to be completed over the coming 3-5 years
- £2.1m for a new collections storage facility
- £1.5m for the development of new strategic initiatives, including Learning and Digital
- £1.3m towards the cost of conserving the Banqueting House, work that is due to take place in 2016/17
- £1.3m for the continued development of Kensington Palace
- £0.9m for the development of a garden designed for children and families at Hampton Court

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 5. Total funds (continued)

### Transfers between funds

As set out in our Reserves policy on page 7, a permanent designated fund is matched to fixed assets, as this cannot be quickly utilised to realise cash in the event of a cash requirement. Any excess above this and the target free reserves of £5m is designated at Trustees' discretion. £5.8m of last year's designation was spent and new designations of £11.1m created.

### Analysis of net assets between funds

Fund balances of the Group and Charity at 31 March 2013 are represented by:

	Unrestricted funds £000	Restricted funds £000	2013 £000	2012 £000
Intangible assets	69	-	69	37
Tangible assets	8,769	-	8,769	8,428
Heritage assets	3,495	1,978	5,473	5,172
Net current assets	21,576	1,966	23,542	18,200
Provisions	(314)	-	(314)	(110)
Pension plan liability	(1,414)	-	(1,414)	(1,867)
<b>Total net assets</b>	<b>32,181</b>	<b>3,944</b>	<b>36,125</b>	<b>29,860</b>

## 6. Remuneration of Trustees

None of the Trustees received any remuneration during the year in connection with services to the Charity or its subsidiary. Reimbursement of travel and subsistence expenses incurred by the Trustees whilst carrying out their responsibilities for the Charity totalled £228 (2012: £706) for the year ending 31 March 2013. Expenses were reimbursed for 2 Trustees (2012: 3). HRP provides liability insurance for Trustees.

## 7. Staff numbers and costs (Group & Charity)

The average number of full-time equivalent staff (including senior management) employed during the year was as follows:

	2013 FTE	2012 FTE
Fundraising	9	9
Retail activities	93	90
Other commercial activities	23	21
<i>Give the palaces the care they deserve</i>	138	140
<i>Transform the way visitors explore their story:</i>		
Public access	320	303
Interpretation and learning	96	90
<i>Have a wider impact in the world</i>	23	21
Governance	4	4
Support costs	64	61
<b>Total</b>	<b>770</b>	<b>739</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 7. Staff numbers and costs (continued)

The aggregate payroll costs of these staff were as follows:

	2013 £000	2012 £000
Wages and salaries	23,528	21,997
Loss of office	5	5
Ex gratia payments	30	22
Social security costs	2,161	2,049
Pension costs	2,796	2,471
<b>Total</b>	<b>28,520</b>	<b>26,544</b>
Agency staff	419	299
<b>Total</b>	<b>28,939</b>	<b>26,843</b>

The number of employees, excluding the Chief Executive, whose remuneration (excluding pension contributions) was:

	2013 No. of staff	2012 No. of staff
£60,001 to £70,000	23	22
£70,001 to £80,000	2	1
£100,001 to £110,000	2	2
£110,001 to £120,000	1	1
£120,001 to £130,000	4	3

Excluding the Chief Executive, there were 32 staff during the year earning in excess of £60,000 (2012: 29), 14 were in a defined benefit scheme (2012: 15) and 18 were in a defined contribution scheme (2012: 14) where the employer contributions were £111,929 (2012: £82,928).

The aggregate emoluments of the Chief Executive were as follows:

	Age	Remuneration	Pension Contributions made to Group Personal Pension Plan
Michael Day	60	153,903	11,384

The emoluments of the Chief Executive in 2011/12 totalled £151,037 (excluding pension benefits).

## 8. Retirement benefits (Group & Charity)

### a) Defined Benefit Pension Scheme

The Charity operates a defined benefit scheme in the UK. The scheme is closed to new entrants. As a consequence the current service cost calculated under the projected unit method can be expected to increase over time, as the average age of the membership increases. A full actuarial valuation was carried out at 31 March 2012 and the preliminary results have been updated to 31 March 2013 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

Following the 1 October 2009 actuarial valuation, the employer agreed a contribution rate of 26.5% of pensionable salary (including 1.5% payable by members). The employer also contributes towards the cost of the scheme's general administration and the insurance cost of death in service benefits. The employer, with approval from the trustees, agreed to pay £28,000 per month to fund the past service deficit. Changes to contributions implemented from 1 April 2013 are set out in the reserves note on page 8.



# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 8. Retirement benefits (continued)

Present values of scheme liabilities, fair value of assets and surplus /(deficit)

	31/03/2013	31/03/2012	31/03/2011
	£'000	£'000	£'000
Fair value of scheme assets	56,433	49,183	45,535
Present value of scheme liabilities	57,847	51,050	46,549
(Deficit) in scheme	(1,414)	(1,867)	(1,014)
Unrecognised surplus	-	-	-
(Liability) to be recognised	(1,414)	(1,867)	(1,014)

Reconciliation of opening and closing balances of the present value of the scheme liabilities.

	Period Ending 31/03/2013	Period Ending 31/03/2012
	£'000	£'000
Scheme liabilities at start of period	51,050	46,549
Current service cost	1,943	1,885
Interest cost	2,478	2,586
Contributions by scheme participants	101	107
Actuarial losses	3,093	1,234
Benefits paid and death in service insurance premiums	(818)	(1,311)
Scheme liabilities at end of period	<b>57,847</b>	<b>51,050</b>

Reconciliation of opening and closing balances of the fair value of scheme assets

	Period Ending 31/03/2013	Period Ending 31/03/2012
	£'000	£'000
Fair value of scheme assets at start of period	49,183	45,535
Expected return on scheme assets	2,965	3,093
Actuarial gains/(losses)	2,480	(721)
Contributions by the Employer	2,522	2,480
Contributions by scheme participants	101	107
Benefits paid and death in service insurance premiums	(818)	(1,311)
Fair value of scheme assets at end of year	<b>56,433</b>	<b>49,183</b>

The actual return on the scheme assets over the period ending 31 March 2013 was £5,445,000.

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 8. Retirement benefits (continued)

### Total expense recognised in Statement of Financial Activities (SOFA)

	Period Ending 31/03/2013 £'000	Period Ending 31/03/2012 £'000
Current service cost	1,943	1,885
Interest cost	2,478	2,586
Expected return on scheme assets	(2,965)	(3,093)
<b>Total expense recognised in SOFA</b>	<b>1,456</b>	<b>1,378</b>

### Analysis of amounts recognised in fund movements

	Period Ending 31/03/2013 £'000	Period Ending 31/03/2012 £'000
Difference between expected and actual return on scheme assets:		
Amount: gain/(loss)	2,480	(721)
Experience gains and losses arising on the scheme liabilities:		
Amount: gain/(loss)	163	(358)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:		
Amount: (loss)	(3,256)	(876)
<b>Total amount recognised in fund movements</b>		
Amount: (loss)	<b>(613)</b>	<b>(1,955)</b>

The cumulative amount of actuarial gains and losses recognised in fund movements since adoption of FRS17 is (£5,586,000) (a loss).

### Assets

	31/03/2013 £'000	31/03/2012 £'000	31/03/2011 £'000
Equity	32,581	31,424	32,304
Corporate Bonds	8,192	6,874	6,597
Gilts	8,361	10,802	6,597
Other	7,299	83	37
<b>Total assets</b>	<b>56,433</b>	<b>49,183</b>	<b>45,535</b>

None of the fair values of the assets shown above include any of the Employer's own financial instruments or any property occupied by, or other assets used by, the Employer.

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 8. Retirement benefits (continued)

### Assumptions

	31/03/2013	31/03/2012	31/03/2011
	% per annum	% per annum	% per annum
Rate of discount	4.60%	4.80%	5.50%
Inflation (RPI)	3.50%	3.25%	3.60%
Inflation (CPI)	2.75%	2.50%	3.10%
Salary increases	2.95%	3.50%	4.10%
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	n/a	n/a	3.60%
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.75%	2.50%	n/a
Allowance for revaluation of deferred pensions of CPI or 2.5% p.a. if less	2.50%	n/a	n/a
Allowance for pension in payment increases of RPI or 5% p.a. if less	3.40%	3.15%	3.50%
Allowance for pension in payment increases of RPI or 3% p.a. if less	3.00%	3.00%	3.00%
Allowance for commutation of pension for cash at retirement	None	None	None

The mortality assumptions adopted at 31 March 2013 imply the following life expectancies:

	2013	2033
Male retiring at age 60 in	26.9	29.0
Female retiring at age 60 in	29.5	31.5

### Expected long-term rates of return

The long-term expected return on gilts, bonds and cash is determined by reference to UK long dated government and corporate bond yields at the balance sheet date. The long-term expected rate of return on equities is based on the rate of return on gilts with an allowance for out-performance.

The expected long-term rates of return applicable for each period are as follows

	Period commencing 01/04/2012 % per annum	Period commencing 01/04/2011 % per annum
Equity	7.10%	7.40%
Corporate Bonds	5.00%	5.50%
Gilts	3.10%	4.40%
Other	3.10%	4.40%
Overall for scheme	5.92%	6.69%

## Notes to the Consolidated Accounts for the year ended 31 March 2013

### 8. Retirement benefits (continued)

Amounts for the current and previous four years

	2013	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000
Fair value of scheme assets	56,433	49,183	45,535	41,061	28,365
Present value of scheme liabilities	57,847	51,050	46,549	44,450	31,576
Surplus /(deficit) in scheme	(1,414)	(1,867)	(1,014)	(3,389)	(3,211)
Experience adjustment on scheme assets	2,480	(721)	594	9,154	(8,007)
Experience adjustment on scheme liabilities	163	(358)	563	(523)	(535)

The best estimate of contributions to be paid by the Employer to the scheme for the period beginning after 31 March 2013 is £2,035,000.

#### b) Defined Contribution Scheme

A group personal pension scheme based on defined contributions was set up for new members of staff with effect from October 2002. The cost for the year was £774,606 (2012: £686,747), with no outstanding contributions at the balance sheet date.

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 9. Intangible fixed assets (Group & Charity)

	Software licences £000
<b>Cost</b>	
<b>Balance as at 1 April 2012</b>	<b>212</b>
Transfers from assets in the course of construction	50
Disposals	(60)
<b>Balance as at 31 March 2013</b>	<b>202</b>
<b>Accumulated depreciation</b>	
<b>Balance as at 1 April 2012</b>	<b>175</b>
Charge for the year	18
Disposals	(60)
<b>Balance as at 31 March 2013</b>	<b>133</b>
<b>Net book value as at 31 March 2013</b>	<b>69</b>
As at 31 March 2012	37

The net book value as at 31 March 2013 represents intangible fixed assets used for

	£000
<b>Costs of generating funds</b>	
Retail activities	7
Other commercial activities	2
Fundraising	1
<b>Charitable expenditure</b>	
<i>Give the palaces the care they deserve</i>	22
<i>Transform the way visitors explore their story:</i>	
Public access	28
Interpretation and learning	7
<i>Have a wider impact in the world</i>	2
	<b>69</b>

## Notes to the Consolidated Accounts for the year ended 31 March 2013

### 10. Tangible fixed assets (Group & Charity)

	Buildings & refurbishments	Fixtures & fittings	Furniture, equipment & exhibitions	Computers	Plant, machinery & vehicles	Assets in course of construction	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Cost</b>							
<b>Balance as at 1 April 2012</b>	<b>9,953</b>	<b>3,921</b>	<b>3,726</b>	<b>820</b>	<b>4,531</b>	<b>1,281</b>	<b>24,232</b>
Additions	-	170	8	27	-	1,668	1,873
Disposals	(4)	(53)	(214)	-	(107)	(51)	(429)
Transfers within tangible assets	2,293	12	68	127	300	(2,800)	-
Transfers to intangible assets	-	-	-	-	-	(50)	(50)
Transfers to heritage assets	-	-	-	-	-	(48)	(48)
<b>Balance as at 31 March 2013</b>	<b>12,242</b>	<b>4,050</b>	<b>3,588</b>	<b>974</b>	<b>4,724</b>	<b>-</b>	<b>25,578</b>
<b>Accumulated depreciation</b>							
<b>Balance as at 1 April 2012</b>	<b>7,356</b>	<b>2,447</b>	<b>2,261</b>	<b>626</b>	<b>3,114</b>	<b>-</b>	<b>15,804</b>
Charge for the year	392	208	338	93	339	-	1,370
Disposals	(3)	(53)	(202)	-	(107)	-	(365)
<b>Balance as at 31 March 2013</b>	<b>7,745</b>	<b>2,602</b>	<b>2,397</b>	<b>719</b>	<b>3,346</b>	<b>-</b>	<b>16,809</b>
<b>Net book value as at 31 March 2013</b>	<b>4,497</b>	<b>1,448</b>	<b>1,191</b>	<b>255</b>	<b>1,378</b>	<b>-</b>	<b>8,769</b>
As at 31 March 2012	2,597	1,474	1,465	194	1,417	1,281	8,428
<b>The net book value as at 31 March 2013 represents fixed assets used for</b>							
Fundraising	-	-	2	2	-	-	4
Retail activities	212	609	-	36	62	-	919
Other commercial activities	-	36	17	6	34	-	93
<b>Charitable expenditure:</b>							
<i>Give the palaces the care they deserve</i>	274	182	46	93	464	-	1,059
<i>Transform the way visitors explore their story:</i>							
Public access	3,031	378	375	90	808	-	4,682
Interpretation and learning	980	243	744	21	10	-	1,998
<i>Have a wider impact in the world</i>	-	-	7	6	-	-	13
Governance costs	-	-	-	1	-	-	1
	<b>4,497</b>	<b>1,448</b>	<b>1,191</b>	<b>255</b>	<b>1,378</b>	<b>-</b>	<b>8,769</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 11. Heritage assets (Group & Charity)

	Total 2013 £000	No.	Total 2012 £000	No.	Total 2011 £000	No.	Total 2010 £000	Total 2009 £000
<b>Cost and net book value</b>								
<b>Balance as at 1 April</b>	<b>5,172</b>	448	<b>4,975</b>	438	<b>4,932</b>	436	<b>4,882</b>	<b>3,350</b>
Additions, at cost	143	3	57	3	43	2	44	32
Transfers from assets in the course of construction	48	1	-	-	-	-	-	-
Donated works, at deemed value	110	1	140	7	-	-	6	1,500
<b>Balance as at 31 March</b>	<b>5,473</b>	453	<b>5,172</b>	448	<b>4,975</b>	438	<b>4,932</b>	<b>4,882</b>

The net book value as at 31 March represents heritage assets used for:

### Charitable expenditure

*Transform the way visitors explore  
their story:*

Interpretation and learning	<b>5,473</b>	5,172	4,975	4,932	4,882
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### 11a) Further information on HRP's collections of heritage assets

The palaces are not owned by HRP, but by The Queen on behalf of the nation. Expenditure on their conservation is recognised in the Statement of Financial Activities when it is incurred.

The main categories of accessioned heritage assets, including those shown on the balance sheet, are:

- The Royal Ceremonial Dress Collection (c 3,400 accessioned items), an important collection of largely British royal and court ceremonial dress, established at Kensington Palace in 1984;
- The general collection (c 3,400 accessioned items), consisting of paintings, drawings, prints, furniture, sculpture, furnishing textiles, decorative arts and social history objects, chiefly displayed as part of the historic furnished interiors at the palaces;
- Architectural drawings archive (c 22,000 accessioned items), containing both modern and historic drawings and copies.

In addition, HRP owns unaccessioned assets as follows:

- Architectural and archaeological materials salvaged or excavated from the palaces. These are primarily used as a research archive. There are around 4,000 boxes / larger objects of this nature;
- c 8,000 architectural drawings.

HRP also displays items on short and long term loan. In particular:

- The majority of the important works of art displayed and stored form part of the Royal Collection, owned by The Queen and administered by the Royal Collection Trust (c 8,000 items);
- The displays of arms, armour and related material at the Tower of London belong to the Royal Armouries (c 900 items).

Our collections remain on public display whenever possible. Storage is normally limited to items providing a research resource, unsuitable for display for conservation reasons or archaeological finds. We loan historic objects from our collections to public exhibitions and museum/gallery displays.

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 11. Heritage assets (continued)

The priority for acquisition or long term loan of heritage assets is to enhance and explain the historic buildings of the palaces with relevant objects. Acquisitions are made by purchase or donation, taking six criteria into consideration. Significant acquisitions require Trustee approval. The highest priority is given to items deriving from the existing buildings of the palaces. Additional criteria apply to the Royal Ceremonial Dress Collection.

Exceptionally, the Trustees will approve the disposal of objects for curatorial reasons but not disposal motivated by financial reasons. The principle of retaining disposed items in public ownership is preferred. Any proceeds of sale are applied for the benefit of the collections.

### 11b) Heritage assets of particular importance

The most significant heritage asset shown on the balance sheet is the van Dyck portrait of Princess Mary, received as a donation from the Museums Libraries and Archives Council in 2008/09 and valued at acquisition at £1.5m.

Of particular significance and not shown on the balance sheet is the only surviving in-situ ceiling painting by Peter Paul Rubens, at the Banqueting House, installed in 1636.

We do not own, but display and provide day-to-day care for the Crown Jewels in the Tower of London.

### 11c) Management and Conservation

HRP maintains a register of heritage assets, which includes records of ownership, conservation status and location. The conservation and curatorial teams manage the collections, including loan items, in accordance with the policies approved by the Trustees. These teams report to the Director of Conservation and Learning.

The long term conservation requirements of the collections are identified and prioritised by HRP's conservators through a programme of condition audits.

## 12. Debtors

	Group 2013 £000	Charity 2013 £000	Group 2012 £000	Charity 2012 £000
Trade debtors	1,755	1,432	1,671	941
Amounts due from subsidiary	-	2,573	-	2,771
Other debtors	138	138	224	75
Prepayments and accrued income	3,155	2,582	2,603	1,601
	<b>5,048</b>	<b>6,725</b>	<b>4,498</b>	<b>5,388</b>

Within debtors, £872,000 of accrued income is due after more than one year (2012: £450,000).



## Notes to the Consolidated Accounts for the year ended 31 March 2013

### 13. Creditors: amounts falling due within one year

	Group 2013 £000	Charity 2013 £000	Group 2012 £000	Charity 2012 £000
Trade creditors	812	691	2,111	1,902
Taxation and social security	720	645	586	584
Other creditors	51	47	20	13
Accruals	6,246	5,733	8,602	8,213
Deferred income	1,718	1,135	1,841	1,015
	<b>9,547</b>	<b>8,251</b>	<b>13,160</b>	<b>11,727</b>

Within creditors, nil is due after more than one year (2012: nil).

### 14. Provision for liabilities and charges (Group & Charity)

	Claims £000	Total £000
Balance as at 1 April 2012	110	110
Amounts used in year	(110)	(110)
New provisions in year	314	314
<b>Balance as at 31 March 2013</b>	<b>314</b>	<b>314</b>

Claim provisions include amounts that will probably be due in the next year following contractual claims.

### 15. Financial commitments under operating leases

	Group 2013 £000	Charity 2013 £000	Group 2012 £000	Charity 2012 £000
Operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:				
Land and buildings:				
More than five years	378	262	285	169
Others:				
Within one year	21	20	61	11
Between two to five years	71	65	136	123
<b>Total payable within one year</b>	<b>470</b>	<b>347</b>	<b>482</b>	<b>303</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 16. Capital commitments

	Group 2013 £000	Charity 2013 £000	Group 2012 £000	Charity 2012 £000
Contracted capital commitments as at 31 March 2013, for which no provision has been made in the accounts:				
Contracted	5,845	5,845	5,327	5,327
Authorised	18,325	18,325	14,327	14,327
	<b>24,170</b>	<b>24,170</b>	<b>19,654</b>	<b>19,654</b>

Commitments include £1,793,216 (2012: £2,100,010) relating to projects that are being funded by donations from third parties.

## 17. Contingent liabilities

Either HRP or the Secretary of State for Culture, Media and Sport may give one year's notice of termination of the contract to manage the palaces. Upon termination, a calculated net asset value would revert to the Secretary of State, being the lower of the value of the net assets transfer of £7.795 million on 1 April 1998 (indexed for inflation and as revised for material changes in accounting policy) or the value of the equivalent assets held at the date of termination of the contract.

HRP is in ongoing negotiations over final agreements relating to our capital projects. Any final amounts above or below those amounts provided in the financial statements will be recognised in future financial statements.

## 18. Related party transactions

This note lists material transactions with other entities in which either Trustees or senior employees of HRP or their close family members hold positions of authority. It also details material transactions with members of the Royal Family and all transactions with Trustees (with the exception of remuneration of Trustees which is covered in Note 6 and donations made by them).

The palaces and much of their contents are held by The Queen in right of Crown. These contents are the responsibility of the Royal Collection Trust.

Historic Royal Palaces (HRP) is contracted by the Secretary of State for Culture, Media and Sport to manage the palaces on her behalf.

*The figures in brackets represent the amounts due at the balance sheet date.*

Related party	Connected party	2013 £000	2012 £000	Detail of transaction
Department for Culture, Media and Sport (DCMS)	Contracts HRP to manage the palaces	150 (nil)	- (nil)	Grant received by HRP from the DCMS Wolfson Museums and Galleries Improvement Fund
		20 (nil)	20 (nil)	Charges made by HRP to DCMS for services provided at Hampton Court Palace

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 18. Related party transactions (continued)

Related party	Connected party	2013 £000	2012 £000	Detail of transaction
		16 (nil)	- (nil)	Charges made by HRPE to DCMS for event held at the Banqueting House
Historic Royal Palaces Inc (HRP Inc)	Michael Day (Chief Executive of HRP) is President of HRP Inc and Danny Homan (Director of HRP) is a Director of HRP Inc	18 (18)	217 (nil)	Grant received by HRP from HRP Inc
Institute of Conservation (ICON)	The Head of HRP Conservation and Collection Care (CCC) is a Trustee of ICON	22 (nil)	22 (nil)	Payments made by HRP for ICON-administered interns working in CCC section.
Royal Armouries (RA)	General The Lord Dannatt (Trustee of HRP) is a Trustee of RA.	180 (65)	299 (159)	Payments made by HRP for goods and services provided at HM Tower of London.
		20 (nil)	64 (57)	Recovery of costs from RA for maintenance, goods and services provided by HRP at HM Tower of London
Royal Collection Trust (RCT) and Royal Collection Enterprises Limited (RCEL) which is a wholly owned subsidiary of RCT	Sir Alan Reid (Trustee of HRP) is a Trustee of RCT and the Chairman of RCEL.	147 (nil)	156 (8)	Charges made by RCEL to HRP and HRPE for the right to produce images of Royal Collection items and for the purchase of goods for resale.
	Jonathan Marsden (Trustee of HRP) is a Director of RCT and RCEL.	22 (9)	22 (10)	Recovery by RCT from HRP of a proportion of the costs of maintaining and recording Royal Collection and other items displayed in the palaces.
		- (nil)	23 (nil)	Charges made by HRPE to RCEL for the purchase of goods
Royal Household (RH)	Sir Alan Reid (Trustee of HRP) is Keeper of the Privy Purse and Treasurer to the Queen	37 (12)	20 (nil)	Payments made by HRP for rent and services provided by RH at Kensington Palace
		- (nil)	90 (nil)	Charges made by HRP to RH for alterations made to space

# Notes to the Consolidated Accounts for the year ended 31 March 2013

## 18. Related party transactions (continued)

Related party	Connected party	2013 £000	2012 £000	Detail of transaction
Unique Venues of London (UVL)	The Head of the Banqueting House is a member of the management board of this not for profit marketing association	8 (nil)	7 (nil)	Payments made by HRPE for its membership of UVL
Michael Page International plc (MPI)	Sir Adrian Montague (Trustee of HRP) was Chairman of MPI until December 2011	- (nil)	14 (nil)	Payments made by HRPE and HRP for recruitment and temporary staff

Copies of the Trustees' register of interests and their biographical details are available from the Charity and Company Secretary, Apartment 39, Hampton Court Palace, Surrey KT8 9AU.

## 19. Financial instruments

Disclosure is required of the role financial instruments have played during the year in creating or changing the risks HRP faces in undertaking its activities.

Since most income is generated from visitors to the palaces, most of HRP's income is received as cash. Surplus funds are held on short term fixed interest rate deposit with institutions with low credit risk ratings. Risks relating to interest rates are managed by budgeting conservatively for investment income. HRP has no borrowings and no finance leases.

HRP is exposed to a credit risk of £1.8m trade debtors (2012: £1.7m). The risk is not considered significant since major customers are known to HRP or are required to pay for services in advance and provisions against bad debts are minimal.

HRP is subject to market risk in that the defined benefit pension fund holds investments. Plans are in place to fund the past service deficit, as detailed in Note 8.

HRP is not subject to any significant foreign currency risk.

## 20. Post balance sheet events

The financial statements were approved by the Accounting Officer and Trustees on 17<sup>th</sup> June 2013 and authorised for issue on 20<sup>th</sup> June 2013.