



Historic Royal Palaces is
the charity that looks after:

Tower of London

Hampton Court Palace

Banqueting House

Kensington Palace

Kew Palace

Hillsborough Castle

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

We raise all our own funds
and depend on the
support of our visitors,
members, donors,
sponsors and volunteers.

FINANCIAL STATEMENTS

AS AT 31 MARCH 2019



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Trustees' Report

Trustees

Rupert Gavin (Chairman)
Zeinab Badawi
Professor Sir David Cannadine (until 16 January 2019)
Bruce Carnegie-Brown
Ajay Chowdhury
Baron Houghton of Richmond in the County of North Yorkshire (Lord Houghton)
Jane Kennedy
Tim Knox FSA
Carole Souter CBE
Sir Michael Stevens KCVO
Sue Wilkinson MBE
M Louise Wilson FRSA
Professor Michael Wood (from 11 March 2019)

Executive Board

John Barnes (Chief Executive and Accounting Officer)
Nicola Andrews (Palaces Group Director from 6 August 2018)
Gina George (Retail and Catering Director)
Paul Gray (Palaces Group Director until 28 May 2018)
Sue Hall (Finance Director)
Richard Harrold OBE (Tower Group Director until 31 May 2019)
Andrew Jackson (Tower of London Director from 27 May 2019)
Graham Josephs (Human Resources Director)
Tom O'Leary (Public Engagement Director)
Adrian Phillips (Palaces and Collections Director)
Dan Wolfe (Communications and Development Director)

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

Charity registered with the Charity Commission for England and Wales
Registration number: 1068852

Historic Royal Palaces Enterprises Ltd

Company limited by share capital, registered with Companies House
Registration number: 03418583

Trustees' Report

Historic Royal Palaces (HRP) was established in 1998 as a Royal Charter Body with charitable status. 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 and the Great Pagoda. These palaces are owned by HM The Queen in right of Crown. HRP is contracted by the Secretary of State for Digital, Culture, Media and Sport to manage the five London palaces on his behalf. This contract has been re-authorised until 31 March 2028.

HRP is also contracted by the Secretary of State for Northern Ireland to manage Hillsborough Castle and Gardens in Northern Ireland. The Castle is owned by the Government and is the official residence of HM The Queen.

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. The Chief Executive is accountable to the Board of Trustees.

Further information and a copy of the Annual Report and Financial Statements can be obtained from www.hrp.org.uk.

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 association and historic and/or 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.

Historic Royal Palaces Enterprises Limited is a company wholly owned by Historic Royal Palaces. It forms the Charity's general trading arm, responsible for running the commercial activities such as retail, functions, sponsorship and other events at Historic Royal Palaces. It gift aids its taxable profits to the Charity.

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

Five major strategic aims to face the challenges of the future

In setting Historic Royal Palaces' aims and planning our activities, the Trustees have had regard to the Charity Commission's guidance on public benefit.

1. Give the palaces the care they deserve

We are guardians of six of the nation's most important historic sites. One is a World Heritage Site and another is part of a World Heritage Site, four are Scheduled Ancient Monuments, and five are Grade I listed buildings. 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.

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 meanings 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 have an ambitious Public Engagement Strategy that delivers programmes on and off site to hundreds of thousands of learners. We have invested significantly in HRP's digital capability to expand our reach further in the future.

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 continue to give particular attention to increasing the ethnic diversity of our workforce, promoting further efficiency, managing poor performance and 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 to achieve an appropriate level of resilience, and to designate any annual surpluses for projects. Our main income streams are from visitors, retail, catering, functions and 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, 16-17 year olds, full time students and those over 65, 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

Performance

The last 12 months held so many things of which we are very proud including the completion of the Great Pagoda at Kew and Hillsborough Castle state rooms, the display of royal jewellery at Kensington Palace, the astonishing public response to Beyond the Deepening Shadow at the Tower of London to commemorate the end of the First World War and expansion of our community access programme, continued commercial success, awards for creativity, excellence and customer care.

We were faced with some challenges throughout the year including the uncertainty arising from Brexit affecting both visitors and staff.

Within our three year Operating Plan we select a number of performance targets to measure the success in achieving our plans. The organisation-wide bonus is paid according to achieving these. We monitor Visitor numbers, Visitor satisfaction and Operating Surplus.

Measure	Target	Performance
Visitor Numbers	Achieve at least 4.7 million visits across all sites	5.027m
Visitor Satisfaction	Achieve Visitor Survey Results that meet/exceed the following (17/18 figures in brackets): Value for money - above 1 (1.35) Enjoyment - above 1.5 (1.62) Staff helpfulness - above 1.5 (1.83)	 1.55 1.69 1.80
Operating Surplus	Deliver Operating Surplus of £23.7m	£27.9m

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.
- During 2018/19, the programme at Hampton Court included the first phase of masonry repairs and conservation to the south side of the Barrack Block, conservation of the decorative wrought-iron gates to the East Front Vestibule and start of structural repairs and masonry conservation to Apartment 39. At the Tower of London, we replaced the protective over-stair to the White Tower's Flamsteed Stairs.
- The Orangery at Kensington Palace, built for Queen Anne, is undergoing conservation repair works both inside and externally in 2019/20 and the construction of the new Learning Centre building in the Orangery Yard also starts this year.
- Hillsborough Castle and Gardens (HCG) opened at Easter 2019.
- The clock tower in the Courthouse turret at Hillsborough Castle and Gardens (HCG) rang for the first time in over 30 years this January. The clock and bell were made in 1810 by John Moxon and are deemed an extremely rare and key example of turret clock horology.
- The Walled Garden at HCG is our most ambitious garden project to date. The original garden dates back to the 18th century, when the four-acre sheltered site was used to produce fruit, vegetables and flowers for the house. As part of the project we have re-imagined and re-presented the site to create a beautiful and productive working garden, complete with dipping pond, potting sheds, herbaceous borders and an apple orchard.
- The restored Great Pagoda at Kew was officially re-opened on 12 July 2018 by HRH The Prince of Wales. It is now adorned with 80 dragons perched on every ridge of the 10 storeys. Although they were originally a feature of the building, they had a short life at the time.
- To commemorate the 400th anniversary of Sir Walter Raleigh's death, we recreated his apothecary's garden, 'The Lost Garden', on its original site outside the Bloody Tower, at the Tower of London, where he was imprisoned in 1603. Curators worked with members of the Gardens and Estates team to decipher Raleigh's Latin text to discover what he had grown there. It is a permanent feature, so visitors can enjoy fragrant changing seasonal displays.

Trustees' Report

- Total spend of £26.1m on this aim in 2018/19 (Statement of Financial Activities (SOFA) on page 24) represents a decrease of 4% from the previous year.

2. Transform the way visitors explore their story

- The 'Pride, Power and Politics' summer walking tours at Tower proved to be a huge success. The sell-out tours began in 2017 to mark 50 years since the partial decriminalisation of homosexuality in Britain, and were so popular that we decided to repeat them. Members of the Tower's warding team led guests around the Tower, exploring stories of the historical characters that had influenced LGBT+ history throughout the centuries.
- 'East Wall, Storm the Tower' was a vibrant dance performance at the Tower of London taking place in July; the result of a collaboration between East London Dance, the Hofesh Shechter Company and the London International Festival of Theatre. Nine Tower Hamlets community groups took part, including the Cando2 Youth Company that brings together disabled and able-bodied dancers, and participants performed side by side with Schechter's young professional dancers.
- In October, characters from the best-selling children's book series Beast Quest joined forces with Hampton Court's own mythical beasts and took over the palace for our half term activities. In a gamified experience produced in collaboration with Beast Quest owners Coolabi, young visitors joined the heroes of the books on a self-guided tour around the site. They encountered digital installations, interactive games and live performances from both Past Pleasures and young performers who were recruited and trained through a partnership with the Rose Theatre in Kingston.
- Throughout a sunny August, Tower audiences sat gripped as a dark tale of false accusations, a sham trial and an execution of an English queen played out in the shadow of the White Tower. 'The Last Days of Anne Boleyn', written by Michael Fentiman, explored Anne's time at the Tower in 1536, from her imprisonment to her trial and execution. The play, performed twice daily, had been heralded by a new style social media campaign, #BoleynisBack, featuring Anne Boleyn touring London landmarks before her fateful journey to the Tower. The campaign was seen 3.1 million times.
- Spring saw the launch of a new five-week Massive Open Online Course (MOOC) on FutureLearn, followed by a second run in October. Created in collaboration with the University of Glasgow, with contributions from HRP's curators, 'A History of Royal Fashion' MOOC exploited fantastic resources, including rarely seen items from the Royal Ceremonial Dress Collection.
- The Irish Victorian Family Christmas offer of live interpretation and the adult Christmas programme of lectures and immersive experiences were well received at HCG. These included a lecture on Queen Victoria by Lucy Worsley, and an evening of ghost stories in the throne room with acclaimed actor from Northern Ireland, Ian McElhenny.

3. Have wider impact in the world

- In November, the Moat at the Tower of London once again became a place of national reflection as we commemorated the end of the First World War. Over 300,000 people came to 'Beyond the Deepening Shadow', to see 10,000 flames lit by Yeoman Warders and an army of volunteers each night over eight days, with 70,000 coming on the final night. Millions more connected through media channels and on social media. The visual spectacle by designer Tom Piper was accompanied by a specially commissioned soundscape by Mira Calix featuring a choral work with words from war poet Mary Borden's Sonnets to a Soldier. Staff and volunteers from HRP who were involved with the project have described the deep and lasting impression it has made on them, shared by the millions who viewed it from all over the world. In the words of the project's creative producer Eva Koch Schulte: 'Working on this event made me realise, every day, how big, daring tributes like 'Beyond...' gather our human spirit, honour the sacrifice of those gone and help us look after the fragile flame that is peace.'
- We've run a successful Community Access Scheme, aimed to remove physical, socio-economic or physical barriers to adult engagement with our sites since 2014. Six groups have so far been selected and have committed to a year-long engagement at HCG, including the Royal National Institute for Blind People (RNIB) and Arts & Biscuits for Dementia.

Trustees' Report

- We hosted the final of BBC Radio 2's '500 words' storytelling competition. Hampton Court Palace broadcast live on the Chris Evan's Breakfast show from the Music Festival Stage in Base Court. Guest of honour HRH The Duchess of Cornwall made a spectacular entrance in Chitty Chitty Bang Bang and winners were invited to ride with her in the famous car.
- In autumn, we welcomed the first students to our first MA course in Heritage Management, delivered jointly with Queen Mary's University of London (QMUL). The students will undertake two modules of the course at HRP, overseen by Professor John Davis. They will study 'Managing Heritage at Historic Royal Palaces and carry out four, six-week professional placements across sites. Students will also undertake a jointly supervised research dissertation.
- Between August 2018 and January 2019 we met with 40 diverse community groups (500 people) in the initial stages of How do we? – our flagship community engagement project at HCG. The project aims to build relationships with community sector audiences across Northern Ireland to inform our future programming and work with groups to remove barriers to participation.
- On Saturday 18 May, we opened the Orangery lawns at Kensington to 1,500 members of the public to watch a live screening of the marriage of Prince Harry to Ms. Meghan Markle at Windsor Castle. The Orangery hosted lots of activities to keep younger family members occupied, while the world's press broadcast live across the globe from the Terrace.
- Another raven joined the community at the Tower of London in March. Raven Poppy, named to commemorate 100 years since the First World War lived for her first four weeks with Ravenmaster Chris Skaife in his house, who announced her arrival, aptly, on Twitter. A TV camera crew from Channel 5 were on hand to record Poppy moving into her own enclosure at the Tower, where she has since settled well, and they also witnessed her first health check up by the vet at London Zoo.
- We published significant titles: *Kensington Palace: Art Architecture and Society*, published in association with Yale, is the first comprehensive study of Kensington Palace and its landscape. The book was edited by Historic Royal Palaces' curators. We also co-published with Scala a lively and affection tribute to Queen Elizabeth II. Written by award-winning author Lucinda Hawksley, *Elizabeth Revealed: 500 facts about The Queen and her world* explores The Queen's private and personal life, and the sweeping social changes throughout her reign.
- The 'Lost Palace' interactive visitor experience won an international award at Best in Heritage conference in October. The 'IMAGINES' Project of Influence 2018 Award, is given to projects that utilise multi-media and new technology. 'Lost Palace' creative producer Tim Powell, Head of the Research & Development Studio at HRP, was invited to be conference keynote speaker in 2019.
- 'Inside the Tower of London', a four-part documentary series for Channel 5, began in October, and drew over six million viewers. The series, made by Lion TV, juxtaposed the Tower's history with how it is run today by Historic Royal Palaces, combining ancient traditions with modern conservation and interpretation. It featured Yeoman Warders, curators and Tower residents, including ravens!
- Over the past five years Historic Royal Palaces Inc, our American affiliate, has developed a programme of Curator-led lecture tours in several US cities, combined with special receptions and small, unique events for our American members to enjoy. The programme is designed to promote and celebrate our palaces, and share their stories more widely, while raising vital funds for HRP. In April 2018, curator Dr Lee Prosser travelled to Athens (Georgia), Atlanta and New York inspiring audiences with his illustrated lecture 'Royal Gardens: A setting for the palace jewel'.

4. Build one organisation united behind our Cause

- During 2018/19 we began work to revise and renew our Cause. This review asks us to consider the impact that we can have on the way people think, sense and feel the palaces and their history: heads, bodies and hearts; which we are summing up in the word 'spirit'.
- We will still look after the palaces, the stones, and tell stories to engage. But we will be clear about why we are doing it – to stir spirits.
- To support our new Cause, we are developing a new Performance Framework which will show staff what behaviours/performance are required to 'live the Cause'.

Trustees' Report

- Based on extensive staff consultation, the root causes of complexity at HRP have been identified and a Blueprint of Change has been developed. This will be implemented in the year(s) ahead to enable HRP to build an agile and flexible organisation where simplicity is valued.
- High levels of staff engagement and enablement continue to be sustained and improved, through implementing action plans developed in response to our last staff survey.
- We continue to grow our Apprentice Programme to provide a pipeline of talent for the organisation. We currently have 15 apprentices working across a range of disciplines.
- Our Volunteer programme continues to go from strength to strength. Our Volunteers contributed around 36,000 hours in 18/19. In addition, over 1,000 volunteers contributed to the hugely successful 'Beyond the Deepening Shadows: The Tower Remembers 1918-2018' programme.
- We are delivering an innovative learning programme for a group of our high performing Team Leaders which will enable us to improve the leadership consistency and performance of all Team Leaders across HRP.

5. Generate the money to make it all possible – Financial Review

- Total footfall visits to our palaces for the financial year were 5.027m, an increase of 6% over the previous year's figure on a like-for-like basis.
- Admissions income was £69.2m – 66% of total income.
- Income from other trading activities (retail, functions and events, licences and rents, and sponsorship) and from catering and other concessions totalled £29.0m, an increase of 2% from £28.3m in 2017/18.
- In 2017, we welcomed the cast and crew of a major period film to Hampton Court Palace, where the Cartoon Gallery and the Tudor Kitchens were 'dressed' in a creative version of their early-18th century appearance. The film, *The Favourite*, released in January 2019, starring Olivia Coleman as an ageing Queen Anne, Rachel Weisz as Sarah Churchill and Emma Stone as Abigail Hill, was an Oscar-winning hit. With the buzz around the film driving a renewed interest in Queen Anne and her Court, we negotiated a partnership with Fox Searchlight pictures to stage two displays of costume from the film, in the Queen's Gallery at Kensington and in Hampton Court's Cartoon Gallery.
- In April 2018 Hobbs launched their tenth collection in association with Historic Royal Palaces. The 11-piece spring/summer collection was partially inspired by the Great Pagoda at Kew, tapping into the restoration and re-opening of this exotic building in the summer, and by the blue and white Chinese porcelain collected by Mary II and Queen Anne that are displayed at Hampton Court and Kensington Palaces.
- We gave our members' magazine *Inside Story* a face-lift this year and it emerged as a perfect-bound magazine, bursting with colourful images and features, interviews and upcoming events. It lands on the doorstep of each of our 100,000-plus members in October, early February and mid-June. The new *Inside Story* is about showcasing who we are and what we do, to help our members develop a lasting, personal connection to the palaces. We're asking them to join in and contribute, too, with inspiring and engaging content that gives every new member their first taste of what it is to belong to our community, as well as encouraging our seasoned historians to delve deeper.

Future Plans

Our Operating Plan for the next three years demonstrates how we will sustain and increase visit numbers to the palaces, deliver big moments across our sites, tackle key infrastructure and accommodation questions and increase our research activities.

In 2019, it is the 200th anniversary of Queen Victoria's birth at Kensington Palace. We are marking the anniversary with a new permanent presentation - '*A Royal Childhood*' - and a temporary exhibition called '*Woman and Queen*', both opening in May.

In 2020, it will be the 500th anniversary of the *Field of Cloth of Gold*, when Henry VIII and Francis I of France parleyed and wrestled. There will be a Tudor festival and an encampment at Hampton Court, a summer of Tudor activities and a temporary exhibition in the Wolsey Rooms.

In 2021, we will stage a blockbuster exhibition of *Court to Couture* at Kensington Palace. It will offer comparison between the spectacle of the court and the celebrity red carpet of today.

Trustees' Report

Alongside these priorities we will continue the programmes of planned, routine, reactive and cyclical maintenance, interiors conservation, gardens improvements, and collections and asset management.

We are aiming for growth, with significant investment in staff resources, stretching income targets and a drive to control costs.

Nothing will be more important than giving a fabulous experience to our visitors at our palaces through the HRP people who deliver the front-line service.

We believe that it is appropriate to prepare the financial statements on a going concern assumption on the basis of:

- the net assets of the charity and of the group,
- forecast visit numbers and associated income for the 2019/20 financial year, and
- the projections outlined in our operating plan covering the three year period starting April 2019.

Funds and reserves

The Trustees recognise the need to establish a level of free 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. 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.

The target level for free reserves is £5 million and this has been maintained throughout the year. The charity has various funds available to finance its activities. These are as follows:

Restricted funds (£5.5m)

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

Unrestricted funds (£48.0m)

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** (£23.8m)

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.

- **Designated funds** (£27.1m)

We have designated funds from our general funds towards our 'big moments' and major projects.

In addition to £15.4m of existing designations carried forward from prior years, £6.3m has been designated to complete projects in 2019/20 that were under way in 2018/19 and £5.4m for longer term development work at the Tower of London, Banqueting House interiors re-presentation and plans to develop HCG.

- **Pension plan** (£7.9m 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, so there is no requirement to ring fence an amount equal to the full deficit from other reserves to cover this liability.

Trustees' Report

The pension liability recorded in the Consolidated and Charity Balance Sheet is calculated annually for accounting purposes under FRS102. As at 31 March 2019, it is £7.9m (March 2018: £4.9m). Details of the retirement benefit scheme are disclosed in Note 8 to the accounts.

The defined benefit pension scheme is also valued for funding purposes by an actuary in a more detailed assessment, every three years. The last triennial valuation was done as at 31 March 2018 and showed a deficit of £1,903k. HRP, as employer, has agreed with the trustees of the scheme that it will pay annual contributions of £31k over a period of three years and one month, increasing at 3% per annum, from 1 April 2019. The funding shortfall is expected to be eliminated by April 2022 primarily through the return on existing assets.

The scheme was closed to future accrual on 31 March 2019. HRP will continue to meet the expenses of the scheme and levies to the Pension Protection Fund.

Investment policy

The Trustees continued to invest in line with the investment policy over the period.

In 2018/19 the bond portfolio returned 1.26% which is below its benchmark return but reflects the wider bonds market. Since inception in January 2014, the portfolio has returned an annualised 1.66%.

The multi-asset portfolios performed well with a combined annualised 2.48% income return and a combined revaluation gain of 10.12% at 31 March 2019.

HRP's investment policy is as follows:

Investment objectives

- Capital preservation is the priority.
- In order to balance immediate cash requirements and future capital and commercial investment plans, HRP investments need to achieve regular annual income returns and long term income growth.

Risk mitigation

- Achieve diversity through the breadth of assets types, maturity dates and institutions contracted with.
- Except for deposits with the Bank of England, no more than 33% is invested in any one institution.
- Long term credit ratings of at least upper-tier of lower medium grade as long as any two agencies' credit ratings meet HRP's thresholds.
- Any investments that might create adverse public profile by association with Historic Royal Palaces will be considered carefully and might be refused.

Amount invested and time horizon

- Up to £10m may be invested in a fixed income portfolio with an average maturity date of no more than 4 years.
- Investment in global multi asset portfolios may be up to the level of free reserves.
- Surplus funds are invested on the money market in the UK on 6 to 24-month fixed term deposits.

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.

During 2018/19, 64% of supplier invoices were paid within 30 days of date of invoice (69% in 2017/18) and 76% within 40 days (80% in 2017/18). This payment performance has not been adjusted for invoices which have been delayed for payment due to a query with the supplier.

Trustees' Report

Related parties

Details of material dealings with any related parties are set out in Note 20.

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*.

Whistleblowing policy

HRP is committed to maintaining high ethical standards and takes all concerns seriously. We have a policy in place to support HRP's values/ethics and ensure compliance with the Public Interest Disclosure Act 1998 (PIDA) and subsequent amendments under the Enterprise and Regulatory Reform Bill 2013 and the Bribery Act 2010.

There are a number of different routes suggested for reporting concerns in addition to the direct management and HR routes:

- Internally, individuals can disclose their concerns to appropriate internal specialists, a specific email address managed by the Whistleblowing Officer and the Head of Audit and Risk or directly to the HR Director (The Whistleblowing Officer) and The Chief Executive, Chairman of the Audit and Risk Committee or the Chairman of Trustees.
- Externally, people can report issues to external bodies such as legal advisers, Minister of the Crown or statutory regulators.

Fundraising Regulator

- We recognise the Fundraising Regulator as our regulator and are not aware of any failure to comply with the scheme.
- We did not engage any professional fundraisers to fundraise from individuals during the year. Two groups of volunteers solicit personal donations on behalf of HRP: our Campaign Board and the Organising Committee for the Statue to Commemorate Diana, Princess of Wales at Kensington Palace.
- The activities of the Campaign Board were monitored through three board meetings during the year. Three Trustees sit on the Campaign Board, which ensures the Trustees have a high degree of awareness of what the Board does and the activities of its individual members. Membership of the Organising Committee for the Statue to Commemorate Diana Princess of Wales includes the Chief Executive of Historic Royal Palaces. The committee meets regularly to discuss its activities.
- Historic Royal Palaces also employed during the year a corporate sponsorship consultant to secure introductions to companies interested in sponsoring the charity. Her activities were governed by a contract and monitored through frequent telephone and email communication. Her work involved no solicitation of individuals.
- We received no complaints about our fundraising practices during the year.
- We avoided practices that risk being unreasonably intrusive or persistent. We did not use professional third party fundraisers, and did not use telephone or direct marketing techniques (post or email), except for advertising in our members magazine, *Inside*

Trustees' Report

Story. Individuals solicited for gifts were either introduced to the charity by existing supporters, or made contact with us in the first instance.

Sustainability

Energy management in historic buildings and estates is always challenging, but Historic Royal Palaces continue to carry out a number of energy saving initiatives across our sites. In 2018/19 these resulted in a decrease in the amount of Greenhouse Gas produced. The overall carbon footprint is lower than the year before, reducing from 4,989 tonnes of CO₂e to **4,668** tonnes of CO₂e.

Greenhouse Gas Emissions	2018	2017	2016	2015
Emissions Scope 1 (tonnes CO ₂ e)	1,981	1,716	1,995	1,707
Emissions Scope 2 (tonnes CO ₂ e)	1,932	2,552	2,957	3,482
Emissions Scope 3 (tonnes CO ₂ e)	755	721	736	847
Total GHG emissions (tonnes CO ₂ e)	4,668	4,989	5,688	6,298

As HRP's activities grow, it is not surprising that we consume a lot of energy; in 2018/19, our total energy consumption was **16.9 million kWh**, an increase of 1.2 million kWh on 2017/18. The carbon emissions associated with our energy use (known as Scope 1 and 2 emissions) represent one of HRP's biggest areas of environmental impact, in particular those arising from our electricity use.

HRP is committed to continue the progress that has been made over the years with water consumption and this is now supported by regular environmental audit and impact assessments for all HRP sites. However in 2018/19, HRP saw a 29% increase in water consumption. The increase is due to infrastructure at the Tower of London and greater usage at the Kensington Palace Pavilion. The weather conditions during the summer also had an impact on water usage.

HRP continue to focus on waste management, increase reuse and recycling of plastics with our waste management contractors, Total Support Services (TSS) and ISL Waste Management Ltd. Total waste arising has decreased by 63 tonnes in 2018/19 compared to 2017/18. A higher proportion of the waste continues to be sent for energy recovery (c60%). Under the current waste management processes, HRP continues to achieve zero waste to landfill and as part of our five-year strategy, we are looking at options to reduce unnecessary single-use plastic across our estate.

HRP remains committed to the aim of biodiversity conservation to ensure that all life forms prosper through sympathetic, sustainable management. Biodiversity is a key area of the HRP Sustainability Strategy that recognises the need to consider the conservation of biological diversity in all that we do within the gardens, estates, and the built environment.

HRP has carried out a wide variety of strategic biodiversity work, including Environmental Impact Assessments, tree Surveys and Ecological Survey Reports. This allows us where possible, to create new habitats or enhance existing ones to encourage local wildlife to flourish.

Trustees' Report

Report of the Remuneration Committee

Membership

The membership of the Remuneration Committee in 2018/19 consisted of four Trustees. Lord Houghton, Louise Wilson and Sue Wilkinson served on the committee throughout the year. Tim Knox was appointed to the committee in May 2018.

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 2018, Directors received a 2.25% 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. One Director who had been recruited in August 2018, did not receive an increase, as per the terms and conditions of their contract of employment.

In addition, the Directors received a performance-related bonus for the 2017/18 period. These bonuses were awarded consistently with the Directors' performance-related bonus scheme and reflected a 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 2018/19 period have been accrued and will be paid in accordance with the agreed scheme.

During the year the Committee reviewed and approved the Directors' Succession plans, which were subsequently discussed and approved by the main Trustee Board.

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.

Rupert Gavin
Chairman of the Board of Trustees
27 June 2019

Hampton Court Palace
Surrey
KT8 9AU

Governance Statement

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 HM The Queen on the advice of the Secretary of State. Four Trustees are appointed by HM 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 not to take up his appointment, in which case HM The Queen may appoint someone to take his place, as currently. The remaining seven are appointed by the Secretary of State, two of whom are ex-officio; the Constable of the Tower of London and the Chairman of the Campaign Board.

The appointments 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 and by further research. 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.

There are four sub-committees of the Board:

The **Audit & Risk Committee** formally 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: Sir Michael Stevens (Chairman), Carole Souter and Ajay Chowdhury. Marcus Boyle is a co-opted member.

Oversight of investment activities is provided by the **Investment Committee**, whose remit includes reviewing the balance of risk/return, and the impact of external factors. During the year, the committee comprised the following Trustees: Rupert Gavin (Chairman), Bruce Carnegie-Brown, Sir Michael Stevens and two members of the Executive Board: John Barnes and Sue Hall. William Fall is a co-opted member of the committee.

Remuneration policy for the Chief Executive and Directors of HRP is agreed by the **Remuneration Committee**. Lord Houghton chaired the committee. Other Trustees who served on the committee were Tim Knox, Sue Wilkinson and Louise Wilson.

The **Nominations Committee** reviews Trustee succession and makes recommendations to the Board to ensure the appropriate balance of competencies, skills, experience and diversity on the Trustee Board. During the year the following Trustees served on the committee: Rupert Gavin (Chairman), Sir Michael Stevens, Lord Houghton, Sir David Cannadine and Zeinab Badawi.

The Board agrees the terms of reference for each committee.

Governance Statement

The work of the Board is further supported by one outside Committee, the **Campaign Board**, which brings specialist expertise on fundraising to HRP. Bruce Carnegie-Brown chairs this Board. Rupert Gavin and Louise Wilson also served 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.

Attendance at Board and Committee meetings is monitored and discussed with each Trustee as part of the annual Board Effectiveness Review. Attendance at Trustee Board meetings over the year was 87% (2018: 80%), Audit & Risk Committee 100% (2018: 92%), Investment Committee 89% (2018: 100%), Remuneration Committee 83% (2018: 80%) and Nominations Committee 60% (2018: 100%).

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

	Board (Note 1)	Audit and Risk Committee	Investment Committee	Remuneration Committee	Nominations Committee
Rupert Gavin	7/7	(Note 2)	3/3	3/3 (invited to attend)	1/1
Zeinab Badawi	6/7				0/1
Sir David Cannadine (until 16 January 2019)	2/6				0/1
Bruce Carnegie-Brown	7/7		3/3		
Lord Houghton	7/7			3/3	1/1
Ajay Chowdhury	7/7	4/4			
Jane Kennedy	6/7				
Tim Knox	5/7			2/3	
Carole Souter	6/7	4/4			
Sir Michael Stevens	6/7	4/4	2/3		1/1
M Louise Wilson	6/7			2/3	
Sue Wilkinson	7/7			3/3	
Professor Michael Wood (from 11 March 2019)	1/1				
Marcus Boyle (note 3)	n/a	3/4			
William Fall (note 3)	n/a		2/3		

Note 1: There was a special meeting of Trustees in August 2018. Attendance at this meeting is not recorded in the table above. Attendees were: Rupert Gavin, Bruce Carnegie-Brown, Lord Houghton, Carole Souter, Tim Knox and Jane Kennedy.

Note 2: Rupert Gavin attended one Audit and Risk Committee as observer.

Note 3: Marcus Boyle and William Foyle are co-opted members for the Audit & Risk Committee and the Investment Committee respectively.

Governance Statement

The Board's performance

The effectiveness of the Board of Trustees and its Committees is formally reviewed each year.

In 2018 an external review of Board effectiveness was undertaken.

This concluded that the governance of HRP is sound, with a high degree of unanimity and positivity within the Trustees and the Executive Board about the Board's performance. As with internal reviews of Board performance, the report and findings were discussed by the Board, and actions agreed.

Highlights of board committee reports

The Trustee Board meets seven times a year.

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, attended by the Executive Board, 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 major projects are also provided at each meeting.

The work of committees of the Board is reviewed by Trustees through either the minutes or a verbal report by the chairman of each committee.

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 approved expenditure of more than 10% on any project are also referred to the Board for further approval. The threshold for approval of projects and contracts at the Board is £750,000 excluding VAT, although projects that may be perceived as novel or contentious below this limit, and anything out of line with the agreed budget, will still be brought to Trustees' attention.

During the year, the Board monitored and considered the progress of the organisation through strategic updates on, conservation, education and public engagement, retail and catering operations, functions and events activity, the fundraising and marketing plans.

The Board also agreed to various acquisitions to enhance HRP's collection of royal dress and other objects.

Audit & Risk 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 four times in the year to end of March 2019.

In addition to the business of the committee as described in the Risk Management Statement, the Audit & Risk committee receive a presentation at each meeting from a different area of the business concentrating on risk management. During the year these focused on the organisation's readiness for the changes that GDPR brought, the risks and management of them within our Major Projects, Retail Buying including the uncertainty from Brexit and Procurement.

The Investment Committee met three times in the year. One of which was to receive updates from the investment managers overseeing HRP's bond portfolio and multi asset funds. The committee reviewed HRP's investments at each meeting. The committee also gave its view to the Pension Scheme Trustees on scheme investment strategy.

This financial year saw the completion of major projects which the Campaign Board had actively supported, in particular the opening of the restored Great Pagoda at Kew.

Governance Statement

Corporate governance

The five London palaces in HRP's care are owned by HM 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 Digital, Culture, Media and Sport to manage the palaces on his behalf. HRP was reclassified as a Public Corporation on 1st April 2005.

In February 2014, the Privy Council approved a revision to the Royal Charter to permit HRP to take on any other palace or property considered by the Trustees to be of Royal association and historic and/or architectural importance and from 1 April 2014 HRP was also contracted by the Secretary of State for Northern Ireland to manage Hillsborough Castle in Northern Ireland. The Castle is owned by the Government. From 1 April 2015, HRP took on management responsibility for the Great Pagoda at Kew from the Royal Botanic Gardens.

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.

Memoranda of Understanding are in place with key partner bodies, such as the Royal Household and the Royal Armouries, governing operations in areas of common interest.

HRP is only obliged to comply with relevant aspects of the UK 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.

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

Risk Management Statement

The Trustees of HRP have considered the major risks to which HRP is exposed and satisfied themselves that systems or procedures are established to manage those risks.

The responsibility for the management and control of HRP rests with the Board of Trustees and therefore they are involved in the key aspects of risk management, particularly in setting the parameters of the process and reviewing and considering the results. The Trustees do not undertake each aspect of the process themselves, they delegate elements of the risk management process to staff and professional advisers. The Trustees review and consider the key aspects of the process and results. The level of involvement is such that the Trustees can make this risk management statement with reasonable confidence.

The Audit and Risk Committee (ARC) is a sub-committee of the Board comprising three members (two Trustees and an independent member), and a Chairman (Trustee). The purpose of the Committee is to support the Board and the Chief Executive Officer (CEO)/Accounting Officer by reviewing the comprehensiveness and reliability of assurances on governance, risk management, control, and the integrity of the financial statements and annual report.

The ARC 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. In line with best practice, the Committee publishes an annual report on its work for the Board.

Governance Statement

Strategic leadership of the risk management process comes from the Executive Board, and the Trustees and CEO/ Accounting Officer oversee the process. The CEO reports annually to the Board 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. Directors, managers and staff are responsible for identifying, assessing and managing the corporate and operational risks in their areas. The Audit & Risk Department is responsible for providing advice and assurance on the adequacy and effectiveness of HRP's risk management process.

HRP's system of governance, risk and control (GRC) is based on the three lines of defence model as per HM Treasury and Institute of Internal Auditor's guidance. There is an escalation process to ensure key and emerging risks are reviewed at the correct level as they arise.

- Internal Audit provides independent assurance to the Executive Board and the Board of Trustees. Internal Audit takes a risk-based approach to audits therefore providing a reasonable rather than absolute level of assurance, and operates in compliance with Public Sector Internal Audit Standards as far as practical for this small department. The Head of Audit & Risk provides an annual report to the CEO, the ARC and the Board. Her opinion for the year to March 2019 was that HRP has a good framework of governance, risk management and control that is sufficiently well embedded to support the achievement of HRP's objectives.
- The second line of defence is formed of a corporate risk register which is reviewed quarterly by the Executive Board and ARC, and annually by Board of Trustees. The Executive Board approves HRP's risk management policy and is responsible for communicating it to staff; maintains the risk registers, monitors change in the corporate risk profile and reports significant changes to the Trustees (on-going). The Executive Board assesses risks and opportunities annually as part of the Operating Plan process (looking forward).
- Other assurance reports are reviewed by Trustees and directors for key risk areas, and have been reviewed by the Head of Audit and Risk:
 - annual financial contingency planning paper;
 - annual people report ;
 - annual reviews of key stakeholders/ partnerships and third parties;
 - annual fraud risk profile - updated annually by Directors and reviewed by the Audit & Risk Committee. Reported levels of dishonest behaviour within HRP have been consistently low and a good system of internal control is in place. A confidential email address (concerns@hrp.org.uk) goes direct to the Whistleblowing Officer mailboxes. No alerts were received in the current year;
 - regular security reports from the Security Advisor to the Executive Board and an annual report and opinion on security to the ARC with an executive summary reported to the Board of Trustees;
 - regular reports on fire, health, safety, environment, and sustainability risks, emergency planning, and the implementation of related policies and procedures to the Executive Board and annual reports and opinions are provided to the ARC by the Advisers for these areas, with an executive summary reported to the Board of Trustees;
 - major projects report summarising project specific risks, along with the likely impact and mitigating actions; reviewed by directors monthly and ARC quarterly.
- Risk and control monitoring at the first line of defence (front line operations) occurs throughout HRP and is recorded via departmental risk registers and detailed management information. The project management framework and project governance structure includes detailed guidance to ensure that risk is a fundamental part of each project from start to finish.

The combined approaches provide assurance that the operational levels of HRP are run following sound governance, risk and control methods and where issues are identified, they are acted upon. The system of internal control is designed to manage risk to an appropriate level rather than to eliminate all risk of failure to achieve HRP's cause and strategy.

Governance Statement

HRP's risk appetite is a balance between managing risk, enhancing innovation and creativity, whilst carefully weighing up risks with all rewards and our charitable objectives. HRP considers risk and its management in a structured way to ensure that the identification, assessment and management of risk is linked to the achievement of HRP's objectives and that all areas of risk are covered - for example, financial, governance, operational and reputational. The corporate risk register at HRP focuses on high impact and/ or likelihood risks aligned with our strategy:

- Strategic Risks
- Compliance, Process and System Risks
- Emerging Risks

Major risks are those risks that have a major impact and a probable or highly probable likelihood of occurring and would have a major impact across any area of HRP.

Throughout the year the top risks rated RED were:

1. **Business Continuity** - The risk of a major unpredictable event or more insidious chronic event that shifts visitor numbers with ongoing work to liaise with our partners and stakeholders and manage this risk in a proportionate and appropriate way.
2. **Staff** - The risk of failure to attract, retain, engage and develop the staff HRP needs to achieve the strategic plans and priorities was rated red throughout the year because the Trades Unions formally confirmed that they were in trade dispute with HRP over closure of the defined benefit pension Scheme and took Industrial Action. This situation was resolved prior to year-end.

Three risks remained at AMBER throughout the year:

1. **Conserve Our Sites** - Amber because of risk relating to funding for electrical work at Hampton Court Palace (phases 2 and 3 of 4 now built into the Strategic Plan), Tower foreshore works, and Cupola room panelling and Kensington State Apartments and in Collections; whilst the security approach in the State Rooms at Hillsborough is under ongoing review during the soft opening period for the House.
2. **Political changes** - Short-term impact of EU-exit on exchange rates has been financially positive. However, our assessment remains at AMBER as there remains uncertainty about whether a deal, no-deal or further referendum will result. The most immediate impact could be decisions relating to the Irish Border as we prepare to open Hillsborough Castle and Gardens in April 2019.
3. **Planning Applications** - We have kept this at amber as we have a number of unresolved planning application issues.

Two risks descended throughout the year from green to AMBER:

1. **Security** - Amber to reflect the continued threat of terrorist action and outstanding areas from the update on Security arrangements from 2017, principally the planned access control to Trophy Drive at Hampton Court along with the need to work with other stakeholders at KP and Kew to effectively manage the security risk at these sites.
2. **Information Systems Failure** - The Head of IS has identified to the Executive Board a number of priorities for immediate improvement to turn this risk to Green. These relate to system infrastructure, network bandwidth and organisational structure within the IS teams.

Directors provide assurance to the CEO about the effectiveness of risk management and any control weaknesses in their annual letters of representation. No significant internal control issues have arisen during 2018/19. A plan to address any weaknesses and ensure continuous improvement of the system is in place. Progress in implementing internal audit recommendations is monitored by the Executive Board and the ARC and good compliance is achieved. New activities and changes to existing processes or regulations are routinely reviewed to ensure that adequate controls are in place.

Governance Statement

For example:

- **GDPR and Data Protection Controls** - The Finance Director is the Senior Information Risk Owner (SIRO), and takes responsibility for the management of information risk, supported by Information Asset Owners (IAOs). All staff are made aware of the requirements of GDPR and undergo annual e-learning to demonstrate compliance. 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. HRP has an agreement with the National Cyber Security Centre (formerly CESG) that where possible we will comply with industry best practices and the spirit of the Security Policy Framework. HRP is a self-assessed Payment Card Industry Data Security Standard Level C organisation that is able to attest to V2 compliance and is now working towards successful attestation of the new V3.2 PCI standard. Appointed Departmental IAOs track their department's repositories of sensitive data (up to OFFICIAL- SENSITIVE). There was no data breach in 2018/19.

Further enhancement of the risk management process is planned with refresh of the risk registers and risk appetite to align with the new HRP cause and strategy and a simplification of the departmental risk management process.

Rupert Gavin
Chairman of the Board of Trustees
27 June 2019

John Barnes
Chief Executive and Accounting Officer

Statement of Responsibility

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 Digital, 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.

Rupert Gavin
Chairman of the Board of Trustees
27 June 2019

Statement of Accounting Officer's responsibilities

The Accounting Officer for the Department for Digital, 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 Digital, 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.

The Accounting Officer confirms that the annual report and accounts are fair, balanced and understandable.

John Barnes
Chief Executive and Accounting Officer
27 June 2019

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

Opinion on financial statements

- I have audited the financial statements of Historic Royal Palaces for the year ended 31 March 2019. 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, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Charities Act 2011.

In my opinion:

- the financial statements give a true and fair view of the state of the Historic Royal Palaces' affairs as at 31 March 2019 and of its net income 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 thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of Historic Royal Palaces in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group the Historic Royal Palace's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Board of Trustees and Accounting Officer

As explained more fully in the Statement of Responsibility, the 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.

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

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Historic Royal Palaces internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Other Information

The Trustees and the Chief Executive, as Accounting Officer are responsible for the other information. The other information comprises information included in the Trustees' report, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

Opinion on other matters

In my opinion:

- the information given in the Trustees' Report which we provide a positive consistency opinion on for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the Trustees' Report are not in agreement with the accounting records and returns; 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.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London, SW1W 9SP

Date: 3 July 2019

Consolidated Statement of Financial Activities for the year ended 31 March 2019

		Unrestricted funds £000	Restricted funds £000	Total 2019 £000	Total 2018 £000
INCOME	<i>Note</i>				
Donations and legacies					
Grants	9	-	4,464	4,464	2,179
Donations		2,068	13	2,081	3,216
Gifts in Kind		-	186	186	25
		2,068	4,663	6,731	5,420
Income from other trading activities					
Retail income		14,826	-	14,826	14,817
Functions and events		6,454	-	6,454	6,283
Licences and rents		4,303	-	4,303	3,994
Sponsorship		840	-	840	681
		26,423	-	26,423	25,775
Investments		503	-	503	475
Income from charitable activities:					
Admissions		69,243	-	69,243	63,949
Concessions		2,532	-	2,532	2,567
		71,775	-	71,775	66,516
Total income	5	100,769	4,663	105,432	98,186
EXPENDITURE					
Costs of raising funds:					
Fundraising		926	-	926	717
Retail activities		12,252	-	12,252	11,857
Investment management costs		27	-	27	26
Other commercial activities		4,104	-	4,104	4,539
		17,309	-	17,309	17,139
Expenditure on charitable activities:					
Give the palaces the care they deserve		22,409	3,650	26,059	27,052
Transform the way visitors explore their story:					
Public access		30,518	327	30,845	30,316
Interpretation and learning		16,421	1,556	17,977	14,545
Have a wider impact in the world		7,075	-	7,075	5,834
		76,423	5,533	81,956	77,747
Other					
Defined Pension scheme net interest cost	8	130	-	130	217
Losses (gains) on curtailments	8	1,763	-	1,763	-
Losses (gains) due to benefit changes	8	69	-	69	-
Total Expenditure	3	95,694	5,533	101,227	95,103
Net (losses)/gains on investments	12	492	-	492	(63)
Net Income / (Expenditure)		5,567	(870)	4,697	3,020
Actuarial (loss)/gain on pension plan	8	(793)	-	(793)	3,572
Net movement in funds		4,774	(870)	3,904	6,592
Fund balances brought forward at 1 April	5	43,207	6,396	49,603	43,011
Fund balances carried forward at 31 March	5	47,981	5,526	53,507	49,603

The amounts shown above derive from continuing activities. There were no recognised gains or losses other than those disclosed above. The notes on pages 27 to 48 form an integral part of these accounts.

Consolidated and Charity Balance Sheet for the year ended 31 March 2019

		Group 2019	Charity 2019	Group 2018	Charity 2018
	Note	£000	£000	£000	£000
<i>Fixed assets:</i>					
Intangible assets		386	386	444	444
Tangible assets	10	19,154	19,154	10,797	10,797
Heritage assets	11	8,561	8,561	8,155	8,155
Investments	12	13,962	13,962	13,693	13,693
		42,063	42,063	33,089	33,089
<i>Current assets:</i>					
Stocks - goods for resale		1,914	-	2,322	-
Debtors	13	5,844	7,652	5,468	6,684
Short-term cash deposits		21,532	21,532	23,000	23,000
Cash at bank and in-hand		7,699	5,508	6,761	5,937
		36,989	34,692	37,551	35,621
<i>Creditors: Amounts falling due within one year</i>	14	16,370	14,073	16,040	14,110
Net current assets		20,619	20,619	21,511	21,511
Total assets less current liabilities		62,682	62,682	54,600	54,600
<i>Creditors: Amounts falling due after more than one year</i>					
		125	125	104	104
<i>Provision for liabilities and charges</i>	15	1,172	1,172	28	28
Net assets excluding Pension Plan liability		61,385	61,385	54,468	54,468
<i>Pension Plan liability</i>	8	7,878	7,878	4,865	4,865
Net assets including Pension Plan liability		53,507	53,507	49,603	49,603
Unrestricted funds		47,981	47,981	43,208	43,208
Restricted funds		5,526	5,526	6,395	6,395
Total funds	5	53,507	53,507	49,603	49,603

These financial statements were approved by the Trustees and the Accounting Officer on 27 June 2019 and were signed on their behalf by:

Rupert Gavin
Chairman of the Board of Trustees
27 June 2019

John Barnes
Chief Executive and
Accounting Officer

The notes on pages 27 to 48 form an integral part of these accounts.

Consolidated Cash Flow Statement for the year ended 31 March 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Net cash provided by operating activities (Note A below)	8,790	3,110
Cash flows from investing activities:		
Purchase of tangible assets	(9,497)	(3,174)
Purchase of intangible assets	(50)	(114)
Purchase of heritage assets	(290)	(159)
Proceeds from sale of fixed assets	1	-
Purchase of investments	(4,630)	(6,351)
Redemption of investments	4,643	1,970
Interest received	503	475
Cash flows from financing activities:		
Net (purchase)/sale of short-term deposits	1,468	(8,000)
Increase/(Decrease) in cash	938	(12,243)

Note A : Reconciliation of net incoming resources to net cash inflow from operating activities	2019 £000	2018 £000
Net incoming /(outgoing) resources from charitable and trading activities	4,697	3,083
Net (Gains)/Losses on Investments	(492)	-
Interest receivable	(503)	(475)
Pension scheme: non-cash movements	2,220	493
Donated heritage assets	(124)	(25)
Depreciation & amortisation	1,243	1,183
Loss on disposal of fixed assets	11	50
Decrease in fixed asset investments	216	265
(Increase)/Decrease in stocks	408	(529)
(Increase)/Decrease in debtors	(376)	(1,093)
Increase/(Decrease) in creditors: current liabilities	330	86
Increase/(Decrease) in long term creditors	21	104
Increase/(Decrease) in provisions for liabilities & charges	1,144	(34)
Other non-cash movements	(5)	2
Net cash inflow from operating activities	8,790	3,110

Analysis of net funds:	2019 £000	2018 £000	Change in year £000
Cash at bank and in hand	7,699	6,761	938

The notes on pages 27 to 48 form an integral part of these accounts.

Notes to the Consolidated Accounts for the year ended 31 March 2019

1 Accounting Policies

The following accounting policies are 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 are prepared in accordance with the *Statement of Recommended Practice (SORP): Accounting and Reporting by Charities* (effective 1 January 2015), applicable United Kingdom accounting standards (FRS 102) and the Charities Act 2011. The financial statements are prepared on a going concern basis under the historical cost convention. They are prepared in accordance with the Accounts Direction (a copy of which can be obtained from the Head of Governance) issued by the Secretary of State in accordance with HRP's Royal Charter. There are no material uncertainties over the application of the going concern assumption.

Historic Royal Palaces meets the definition of a public benefit entity under FRS 102.

c) Basis of consolidation

The Group accounts consolidate HRP and its subsidiary undertaking, HRPE, which has a co-terminus year-end. Consolidation is 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 Statement of Financial Activities when the Group is entitled to the income, receipt is probable and the amount can be quantified with reliable 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 receipt, the income is accrued.
- Donations and major gifts – recognised when received or on a receivable basis where receipt is probable and there is entitlement to the income.
- Gifts in Kind – where donated to the Group, are included at market value at the time of receipt.
- Admissions – income recognised upon visitor entry.
- Retail and Catering – income recognised upon sale of the goods.
- Functions and Events – income is accounted for in the month that the event is due to take place.
- Licences and Rents – income is accounted for on a pro-rata basis over the period to which the rent relates.
- Sponsorship – income is accounted for evenly over the period of sponsorship.

Notes to the Consolidated Accounts for the year ended 31 March 2019

f) Resources expended

All expenditure is accounted for on an accruals basis and is classified under the principal categories of 'costs of raising funds' and 'charitable activities'. The expenditure classifications comprise direct expenditure, including staff costs, attributable to the activity.

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

g) Tangible fixed assets

Tangible fixed assets costing more than £5,000 are capitalised at a value net of VAT and included at cost. 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. Assets purchased by or gifted to the Charity's predecessors prior to September 1989 have not been capitalised.

No formal revaluation is undertaken for buildings, plant and machinery.

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

h) Heritage Assets

SORP 2015 defines heritage assets 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 collection of heritage assets is set out in Note 11.

i) Investments and cash at hand and in bank

Investment income comprises interest receivable from cash at bank and liquid resources as well as income from investments held in a fixed income bond portfolio and multi-assets funds. All investments are held in order to provide an investment return. Dividend and interest income is recognised on a receivable basis.

Notes to the Consolidated Accounts for the year ended 31 March 2019

Funds held in cash or in current/premium accounts are defined as cash at bank and in hand. They represent the deposits and cash used to finance Historic Royal Palaces on a day-to-day basis.

Funds placed on money market deposits are short-term cash deposits of up to a year and are defined as liquid resources. All liquid resources are held in commercial banks with appropriate credit ratings.

Fixed income investments are short-dated high credit rated bonds with fixed and determinable coupons. The bonds are retained with the intention and ability to be held to maturity. The bond portfolio is measured at fair value upon purchase and amortised cost using the effective interest method. The carrying value is reduced if there is any impairment.

The investments in multi-asset funds are measured at market value each year.

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. Fixed income investments are measured at amortised 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. Income from operating leases is recognised 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 and from April 2019, the scheme was closed to future accruals. The Charity has implemented the full reporting requirements of FRS 102: Employee Benefits in relation to the defined benefit scheme. The resulting deficit is treated as an unrestricted fund.

A group personal pension scheme based on defined contributions was established for new members of established staff and staff on contracts exceeding 1 year with effect from October 2002. An additional group personal pension scheme based on defined contributions was set up for casual staff and staff on contracts of less than 1 year with effect from October 2013. The cost to HRP of both defined contribution schemes is the contributions paid during the year.

o) Taxation

As a charity, the Charity is exempt from corporation tax under section 505 ICTA 1988. HRPE distributes 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 69.5% of VAT incurred by HRP is irrecoverable.

Notes to the Consolidated Accounts for the year ended 31 March 2019

(p) **Key judgements and estimates**

The significant judgements and estimates made in preparing these accounts are disclosed throughout the document, and include those with respect to depreciation (note 1g), the valuation of fixed assets (note 10) and heritage assets (note 11), the actuarial valuation of the defined benefit pension liability (note 8) and the provision for pension closure's compensation payments (note 15).

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 (registration number 03418583). The principal activities of the company are retailing, 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.

	2019	2018
<u>Profit and loss account</u>	<u>£000</u>	<u>£000</u>
Turnover (other trading activities)	23,811	23,385
Cost of sales (costs of raising funds)	(5,027)	(5,091)
Gross profit	18,784	18,294
Administrative expenses	(13,331)	(12,674)
Interest receivable	17	2
Profit on ordinary activities before taxation	5,470	5,622
Taxation	(7)	(12)
Total profit for the financial year	5,463	5,610
Amount distributable under Gift Aid to HRP	(5,463)	(5,610)
Retained in subsidiary	-	-
	2019	2018
<u>Balance Sheet as at 31 March 2019</u>	<u>£000</u>	<u>£000</u>
Stocks - goods for resale	1,914	2,322
Debtors	683	716
Cash	2,192	824
Current liabilities	(4,788)	(3,862)
Creditors due after more than one year	(1)	-
Net assets	-	-
<u>Share capital and reserves</u>	-	-

Notes to the Consolidated Accounts for the year ended 31 March 2019

3. Total expenditure

	Total direct costs £000	Allocation of support costs £000	Total 2019 £000	Total 2018 £000
Costs of raising funds				
Generating the money to make it possible:				
Fundraising	824	102	926	717
Retail activities	10,432	1,820	12,252	11,857
Other commercial activities	3,594	510	4,104	4,539
Investment management costs	27	-	27	26
	14,877	2,432	17,309	17,139
Expenditure on charitable activities				
Give the palaces the care they deserve	23,182	2,877	26,059	27,052
Transform the way visitors explore their story:				
Public access	25,283	5,562	30,845	30,316
Interpretation and learning	15,783	2,194	17,977	14,545
Have a wider impact in the world	6,379	696	7,075	5,834
	70,627	11,329	81,956	77,747
Other				
Pension finance (income)/costs	130	-	130	217
Pension losses (gains) on curtailments	1,763	-	1,763	-
Pension losses (gains) due to benefit changes	69	-	69	-
	1,962	-	1,962	217
Total	87,466	13,761	101,227	95,103
Resources expended include charges for:			Total 2019 £000	Total 2018 £000
Auditors' remuneration:				
Audit	- HRP		45	40
	- HRPE		22	18
The auditors did not provide any non-audit services				
Operating lease charges			730	677
Stock recognised as an expense			4,886	5,058
Impairment of stock (included in cost of sales)			142	136
Depreciation written off owned fixed assets:				
Tangible			1,136	1,129
Intangible			107	54
Corporation tax			7	12

Notes to the Consolidated Accounts for the year ended 31 March 2019

4. Support costs

	Human Resources £000	Information Systems £000	Finance Department £000	Pension Department £000	Management Costs £000	Governance Costs £000	Total 2019 £000	Total 2018 £000
Costs of raising funds								
Fundraising	10	32	37	2	18	4	103	85
Retail activities	202	643	500	31	370	74	1,820	1,716
Other commercial activities	55	176	150	8	101	20	510	526
Charitable expenditure								
Give the palaces the care they deserve	274	873	1,086	42	502	100	2,877	2,886
Transform the way visitors explore their story:								
Public access	749	2,387	666	114	1,374	273	5,563	5,316
Interpretation and learning	247	787	580	38	453	90	2,195	1,872
Have a wider impact in the world	57	183	320	9	105	21	695	550
Total	1,594	5,081	3,339	244	2,923	582	13,763	12,951

The basis of apportionment for support costs is staff headcount (see note 7), with the exception of Finance Department which is based upon expenditure excluding payroll.

Governance Costs	2019 £000	2018 £000
Internal and external audit	278	263
Trustee expenses and costs	22	8
Trustee and chairman recruitment costs	38	-
Production of annual report	4	3
Management costs	240	226
	582	500

Trustees and chairman also attend sub-committees alongside directors and staff of HRP. The costs associated with those meetings are included in the support costs above.

Notes to the Consolidated Accounts for the year ended 31 March 2019

5. Total funds

	Funds as at 1 April 2018	Incoming resources 2018/19	Resources expended 2018/19	Revaluations 2018/19	Transfers between funds 2018/19	Funds as at 31 March 2019
	£000	£000	£000	£000	£000	£000
Unrestricted funds						
General (Free) reserves	5,000	99,128	(91,833)	492	(7,787)	5,000
Designated funds	27,813	-	-	-	(717)	27,096
Fixed assets	15,259	-	-	-	8,504	23,763
Pension plan	(4,865)	1,641	(3,861)	(793)	-	(7,878)
Total	43,207	100,769	(95,694)	(301)	-	47,981
Restricted funds						
Donated assets	4,152	186	-	-	-	4,338
Hillsborough Castle & Gardens	2,100	3,628	(4,931)	-	-	797
Hampton Court Palace projects incl. HCP Gardens	24	13	(15)	-	-	22
Tower of London projects incl. <i>The Tower Remembers</i>	53	215	(177)	-	-	91
Kew Dragons	-	85	(85)	-	-	-
Kensington Palace projects incl. Sunken Garden statue	-	291	(60)	-	-	231
AHRC-funded Research projects	48	181	(189)	-	-	40
Other projects	19	64	(76)	-	-	7
Total	6,396	4,663	(5,533)	-	-	5,526
Total funds	49,603	105,432	(101,227)	(301)	-	53,507

Designated funds

New funds have been designated out of general reserves for expenditure on long-term commitments to major projects and 'big moments', including £6.3m to complete projects in 2019/20 that were under way in 2018/19, and £5.4m for longer term development work at the Tower of London, Banqueting House interiors re-presentation and Hillsborough Castle and Gardens development.

Transfers between funds

As set out in our Reserves policy on page 8, 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 are designated at Trustees' discretion. £12.4m of last year's designation was spent and new designations of £11.7m were created in 2018/19.

Notes to the Consolidated Accounts for the year ended 31 March 2019

Analysis of net assets between funds

Fund balances of the Group and Charity at 31 March 2019 are represented by:

	Unrestricted funds £000	Restricted funds £000	2019 £000	2018 £000
Intangible assets	386	-	386	444
Tangible assets	19,154	-	19,154	10,797
Heritage assets	4,223	4,338	8,561	8,155
Investments	13,962	-	13,962	13,693
Net current assets	19,431	1,188	20,619	21,511
Creditors > one year	(125)	-	(125)	(104)
Provisions	(1,172)	-	(1,172)	(28)
Pension plan liability	(7,878)	-	(7,878)	(4,865)
Total net assets	47,981	5,526	53,507	49,603

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 £6,564 (2018: £1,114) for the year ending 31 March 2019. Expenses were reimbursed for eleven Trustees (2018: 1). HRP provides liability insurance for Trustees.

7. Staff numbers and costs (Group & Charity)

Staff numbers

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

	2019 FTE	2018 FTE
Fundraising	6.0	5.4
Retail activities	120.4	112.4
Other Commercial Activities	32.9	31.9
Giving the Palaces the care they deserve	163.4	159.7
Transform the way visitors explore their Story:		
Public Access	446.8	417.0
Interpretation and Learning	147.3	134.7
Having a wider impact in the world	34.3	27.2
Support functions	109.8	116.3
Total	1,060.9	1,004.6

Staff costs

	2019 £000	2018 £000
Wages and salaries	35,709	33,712
Loss of office	50	28
Ex gratia payments	93	20
Social security costs	3,517	3,337
Pension costs	5,537	3,894
Total	44,906	40,991
Agency staff	373	655
Total	45,279	41,646

Notes to the Consolidated Accounts for the year ended 31 March 2019

The ex gratia payments were additional payments to the loss of office settlements and are in line with HRP policies.

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

	2019	2018
	No. of Staff	No. of Staff
£60,001 to £70,000	16	16
£70,001 to £80,000	22	22
£80,001 to £90,000	3	3
£90,001 to £100,000	0	0
£100,001 to £110,000	0	0
£110,001 to £120,000	1	1
£120,001 to £130,000	2	2
£130,001 to £140,000	2	2
£140,001 to £150,000	2	1

Excluding the Chief Executive, there were 48 staff including directors during the year earning in excess of £60,000 (2018: 47), 15 were in a defined benefit scheme (2018: 12) where the employer contributions were £365,178 (2018: £322,140), and 35 were in a defined contribution scheme (2018: 35) where the employer contributions were £281,894 (2018: £211,130).

The aggregate emoluments of key management personnel were as follows:

	Remuneration	Pension contributions made to Group Personal Pension Plan	Pension contributions made to HRP Pension Scheme	Staff Benefits
John Barnes	£149,127	£38,714	£913	£577

The remuneration of the Chief Executive (sum of the departing CEO and the incoming CEO) in 2017/18 was £156,416, with pension contributions of £29,237 and staff benefits of £1,066.

Excluding the Chief Executive, the total remuneration to the Executive Board was £897,103 (2018: £921,471) with pension contributions of £99,501 (2018: £126,247) and staff benefits of £3,932 (2018: £5,082).

8. Retirement benefits (Group & Charity)

a) Historic Royal Palaces Pension Scheme

HRP operates a defined benefit scheme in the UK. The scheme is closed to new entrants and was closed to future accrual from 31 March 2019. This is a separate trustee administered fund holding the pension scheme assets to meet long-term pension liabilities.

A full triennial actuarial valuation was carried out at 31 March 2018.

This most recent triennial actuarial valuation showed a deficit of £1,903k. The employer has agreed with the trustees of the scheme that it will aim to eliminate the deficit over a period of 3 years and 1 month from 1 April 2019 by the payment of annual contributions of £31k, increasing at 3% per annum. The funding shortfall is expected to be eliminated by April 2022 through the return on existing assets and the new contributions.

Notes to the Consolidated Accounts for the year ended 31 March 2019

In accordance with the actuarial valuation, the employer has agreed with the trustees that it will meet expenses of the scheme and levies to the Pension Protection Fund.

A qualified actuary, independent of the scheme's sponsoring employer updated to 31 March 2019 the annual accounting valuation required under Section 28 of FRS 102.

The major assumptions used by the actuary are shown below.

The basis apportionment for pension expense costs is payroll costs.

Present values of defined benefit obligation, fair value of assets and defined benefit (liability):

	31/03/2019	31/03/2018	31/03/2017
	£000	£000	£000
Fair value of plan assets	91,386	86,428	83,982
Present value of defined benefit obligation	99,264	91,293	91,926
(Deficit) in plan	(7,878)	(4,865)	(7,944)
Defined benefit (liability) to be recognised	(7,878)	(4,865)	(7,944)

Reconciliation of opening and closing balances of the defined benefit obligation:

	Period Ending	Period Ending
	31/03/2019	31/03/2018
	£000	£000
Defined benefit obligation at start of period	91,293	91,926
Current service cost	1,872	1,982
Expenses	157	113
Interest expense	2,374	2,473
Contributions by plan participants	71	74
Actuarial losses (gains)	3,716	(2,505)
Benefits paid and death in service premiums	(2,051)	(2,770)
Losses (gains) on curtailments	1,763	-
Losses (gains) due to benefit changes	69	-
Defined benefit obligation at end of period	99,264	91,293

Reconciliation of opening and closing balances of the fair value of plan assets:

	Period Ending	Period Ending
	31/03/2019	31/03/2018
	£000	£000
Fair value of scheme assets at start of period	86,428	83,982
Interest income	2,244	2,256
Actuarial gains (losses)	2,923	1,067
Contributions by the employer	1,771	1,819
Contributions by plan participants	71	74
Benefits paid and death in service premiums & expenses	(2,051)	(2,770)
Fair value of plain assets at end of period	91,386	86,428

The actual return on the plan assets over the period ended 31 March 2019 was £5,167,000.

Notes to the Consolidated Accounts for the year ended 31 March 2019

Defined benefit cost recognised in Statement of Financial Activities (SOFA):

	Period Ending 31/03/2019 £000	Period Ending 31/03/2018 £000
Current service cost	1,872	1,982
Expenses	157	113
Net Interest cost	130	217
Losses (gains) on curtailments	1,763	
Losses (gains) due to benefit changes	69	-
Total expense recognised in SOFA	3,991	2,312

Defined benefit costs recognised in other comprehensive income:

	Period Ending 31/03/2019 £'000	Period Ending 31/03/2018 £'000
Return on plan assets (excluding amounts included in net interest cost) – gain/(loss)	2,923	1,067
Experience gains and losses arising on the plan liabilities – gain (loss)	546	236
Net effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities – gain (loss)	(4,262)	2,269
Total amount recognised in other comprehensive income – gain (loss)	(793)	3,572

Assets

	31/03/2019 £000	31/03/2018 £000	31/03/2017 £000
Equities	39,429	37,565	36,529
Government bonds	6,202	6,000	5,795
Index Linked bonds	33,563	31,706	31,358
Property	11,730	10,875	9,983
Cash	462	282	317
Total assets	91,386	86,428	83,982

None of the fair values of the assets shown above include any direct investments in 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 2019

Assumptions

	31/03/2019	31/03/2018	31/03/2017
	% per annum	% per annum	% per annum
Discount Rate	2.30%	2.60%	2.70%
Inflation (RPI)	3.50%	3.35%	3.50%
Inflation (CPI)	2.50%	2.35%	2.50%
Salary growth	2.95%	2.80%	2.95%
Allowance for:			
revaluation of deferred pensions of CPI or 5% p.a. if less	2.50%	2.35%	2.50%
revaluation of deferred pensions of CPI or 2.5% p.a. if less	2.50%	2.35%	2.50%
pension in payment increases of RPI or 5% p.a. if less	3.30%	3.20%	3.30%
pension in payment increases of RPI or 3% p.a. if less	2.50%	2.45%	2.50%
pension in payment increases of RPI	3.50%	3.35%	3.50%
commutation of pension for cash at retirement	80% of Post A Day	No allowance	No allowance

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies at age 60yrs:

Male retiring in 2019	25.8
Female retiring in 2019	27.9
Male retiring in 2039	27.1
Female retiring in 2039	29.2

b) Defined Contribution Schemes

A group personal pension scheme based on defined contributions was set up for new members of established staff and staff on contracts exceeding 1 year with effect from October 2002. The cost for the year was £2,332,081 (2018: £1,764,951), with no outstanding contributions at the balance sheet date. The cost forms part of staff costs that as stated in note 1(f) are classed as direct expenditure attributable to the activity, and are all from unrestricted funds.

An additional group personal pension scheme based on defined contributions was set up for casual staff and staff on contracts of less than 1 year with effect from October 2013, to meet pension auto-enrolment requirements. The cost for the year was £46,251 (2018: £22,724), with no outstanding contributions at the balance sheet date.

9. Grant income

Grant income of £4,464k includes funding from government bodies as follows:

- £3,198k from the Heritage Lottery Fund for Hillsborough Castle & Gardens
- £272k from the Northern Ireland Office for security work
- £181k from the Arts & Humanities Research Council for three projects - *Portable Palaces, Lest We Forget* and *Fashioning Victoria*
- £48k from the Arts Fund for acquisitions

Notes to the Consolidated Accounts for the year ended 31 March 2019

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
Cost							
Balance as at 1 April 2018	13,896	5,028	3,895	872	5,767	2,890	32,348
Additions	-	-	49	16	92	9,340	9,497
Disposals	-	-	(47)	(26)	(80)	-	(153)
Transfers within tangible assets	-	934	-	-	22	(956)	-
Balance as at 31 March 2019	13,896	5,962	3,897	862	5,801	11,274	41,692
Accumulated depreciation							
Balance as at 1 April 2018	9,369	3,672	3,371	733	4,406	-	21,551
Charge for the year	363	320	132	52	269	-	1,136
Disposals	-	-	(43)	(26)	(80)	-	(149)
Balance as at 31 March 2019	9,732	3,992	3,460	759	4,595	-	22,538
Net book value as at 31 March 2019	4,164	1,970	437	103	1,206	11,274	19,154
As at 31 March 2018	4,527	1,356	524	139	1,361	2,890	10,797
The net book value as at 31 March 2018 represents fixed assets used for:							
Retail activities	48	392	-	9	68	69	586
Fundraising	-	-	-	-	-	3	3
Other commercial activities	-	9	6	2	10	19	46
Charitable expenditure:							
Give the palaces the care they deserve	1,647	1,068	-	13	744	10,815	14,287
Transform the way visitors explore their story:							
Public access	1,917	167	379	67	340	254	3,124
Interpretation and learning	552	334	44	9	43	95	1,077
Have a wider impact in the world	-	-	8	3	1	19	31
	4,164	1,970	437	103	1,206	11,274	19,154

Notes to the Consolidated Accounts for the year ended 31 March 2019

11. Heritage assets (Group & Charity)

	Artefacts 2019 £000	No.	Artefacts 2018 £000	No.	Artefacts 2017 £000	No.	Artefacts 2016 £000	Artefacts 2015 £000
Cost and net book value								
Balance as at 1 April	8,155	478	8,010	477	6,459	469	5,796	5,528
Additions, at cost	290	10	159	7	148	7	20	214
Transfers from assets in the course of construction	-		-		-		-	-
Disposals	(8)	(37)	(39)	(8)	(4)	(1)	-	(19)
Donated works, at deemed value	124	0	25	2	1,407	2	643	73
Balance as at 31 March	8,561	451	8,155	478	8,010	477	6,459	5,796

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

Transform the way visitors explore their story:

Interpretation and learning	8,561	8,155	8,010	6,459	5,796
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There were several significant additions to Heritage assets in the year:

- A painting valued at £123,800. This was accepted in lieu of inheritance tax by HM Government and allocated to HRP for Hampton Court Palace. The valuation basis used is the tax settlement value.
- A group of Royal costume purchased at auction valued at £98,000 and two Diana dresses valued at £53,000 and £113,636.36 respectively. These items have been added to the Royal Ceremonial Dress Collection.

11a) Further information on HRP's collections of heritage assets

The palaces are not owned by HRP, but by HM 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 (c9,000 accessioned items), an important collection of largely British royal and court ceremonial dress, established at Kensington Palace in 1984;
- The general collection (c8,000 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 (c22,000 accessioned items), containing both modern and historic drawings and copies.
- Architectural and archaeological materials salvaged or excavated from the palaces. These are primarily used as a research archive. (c7,000 accessioned items).
- Three tiaras accepted in lieu of inheritance tax by HM Government in 2016/17

In addition, HRP owns un-accessioned assets as follows:

- c8,000 architectural drawings.

Notes to the Consolidated Accounts for the year ended 31 March 2019

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

- The majority of the important works of art displayed “at home” at our palaces and stored form part of the Royal Collection, owned by HM The Queen on behalf of the nation and administered by the Royal Collection Trust (c8,000 items);
- The displays of arms, armour and related material at the Tower of London belong to the Royal Armouries (c 900 items).
- The artwork collection and other items on display at Hillsborough Castle (c1,500 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.

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.

The de-accession of several items took place over the last year as a result of a collections review. These items were all transferred to accredited museums or other public bodies. No items were sold.

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 display and provide day-to-day care for the Crown Jewels in the Tower of London. Like the palaces themselves, the Crown Jewels are owned by HM The Queen in right of Crown.

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 Trustees. These teams report to the Director of Palaces & Collections.

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

Notes to the Consolidated Accounts for the year ended 31 March 2019

12. Investments

<u>Bond Portfolio</u>	Group 2019 £000	Charity 2019 £000
Balance as at 1 April	8,773	8,773
Effective interest earned	140	140
Interest coupons received	(350)	(350)
Bonds purchased	4,630	4,630
Bonds redeemed	(4,643)	(4,643)
Gain / (Loss) on valuation	(6)	(6)
Balance as at 31 March	8,544	8,544

These consist of short dated, investment grade, sterling, fixed income securities. The bond portfolio is accounted for using the effective interest method as the bonds are intended to be held to maturity.

<u>Multi-Asset Investment Fund</u>	Group 2019 £000	Charity 2019 £000
Balance as at 1 April	2,477	2,477
Units Purchased	-	-
Gain / (Loss) on revaluation	200	200
Balance as at 31 March	2,677	2,677

This is a balanced mixed asset fund with a focus on funds that contribute to society or the environment. It incorporates global and UK growth equity funds, with a proportion allocated to corporate bonds, gilts and cash.

<u>Ethical Investment Fund</u>	Group 2019 £000	Charity 2019 £000
Balance as at 1 April	2,443	2,443
Units Purchased	-	-
Gain / (Loss) on revaluation	298	298
Balance as at 31 March	2,741	2,741

Total Investment Balance as at 31 March	13,962	13,962
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This is a diversified multi-asset fund with ethical and responsible investment standards. It consists of global and UK equities, with a proportion allocated to infrastructure & operating assets, property and cash.

13. Debtors

	Group 2019 £000	Charity 2019 £000	Group 2018 £000	Charity 2018 £000
Trade debtors	2,510	1,969	2,510	2,002
Amounts due from subsidiary	-	2,476	-	1,878
Other debtors	163	163	141	141
Prepayments and accrued income	3,171	3,044	2,817	2,663
	5,844	7,652	5,468	6,684

£200k accrued income is due after more than one year (2018: £nil).

Notes to the Consolidated Accounts for the year ended 31 March 2019

14. Creditors: amounts falling due within one year

	Group 2019 £000	Charity 2019 £000	Group 2018 £000	Charity 2018 £000
Trade creditors	1,799	1,477	2,276	1,949
Taxation and social security	1,177	1,006	958	946
Other creditors	453	479	392	444
Accruals	9,254	8,671	9,142	8,479
Deferred income	3,687	2,440	3,272	2,292
	16,370	14,073	16,040	14,110

Deferred Income comprises advance visitor bookings, membership income and function and event deposits.

15. Provision for liabilities and charges (Group and Charity)

	Claims £000	Total £000
Balance as at 1 April 2018	28	28
Amounts used in year	(28)	(28)
New provisions in year	1,172	1,172
Balance as at 31 March 2019	1,172	1,172

The provision includes amounts for pension closure's compensation payments and amounts that will probably be due in the next year following contractual claims.

16. Financial commitments under operating leases

The Group and Charity had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Group 2019 £000	Charity 2019 £000	Group 2018 £000	Charity 2018 £000
Operating Lease payments due:				
Not later than one year	729	572	671	515
Later than one year and not later than five years	2,705	2,075	2,560	1,934
Later than five years	33,286	32,971	32,460	32,147
Total payable	36,720	35,618	35,691	34,596

Notes to the Consolidated Accounts for the year ended 31 March 2019

17. Operating lease income

The Group and Charity had the following future minimum lease income under non-cancellable operating leases for each of the following periods:

	Group 2019 £000	Charity 2019 £000	Group 2018 £000	Charity 2018 £000
Operating Lease payments due:				
Not later than one year	289	187	298	196
Later than one year and not later than five years	790	504	825	504
Later than five years	186	78	372	197
Total receivable	1,265	769	1,495	897

18. Capital commitments

	Group 2019 £000	Charity 2019 £000	Group 2018 £000	Charity 2018 £000
Contracted capital commitments as at 31 March 2019, for which no provision has been made in the accounts:	5,839	5,839	15,300	15,300

Commitments include £0.5m (2018: £4.5m) relating to projects that are being funded by donations from third parties.

19. Contingent liabilities

Either HRP or the Secretary of State for Digital, 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 £7.795m 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.

Notes to the Consolidated Accounts for the year ended 31 March 2019

20. The summary financial performance of the charity alone

	Unrestricted funds	Restricted funds	Total 2019	Total 2018
	£000	£000	£000	£000
INCOME				
Donations and legacies				
Grants	-	4,464	4,464	2,179
Donations	2,068	13	2,081	3,216
Gifts in Kind	-	186	186	25
	2,068	4,663	6,731	5,420
Income from other trading activities				
Retail income	-	-	-	-
Functions and events	300	-	300	199
Licences and rents	2,304	-	2,304	2,182
Sponsorship	-	-	-	-
	2,604	-	2,604	2,381
Investments	486	-	486	474
Income from charitable activities:				
Admissions	69,244	-	69,244	63,948
Concessions	2,532	-	2,532	2,567
	71,776	-	71,776	
Other Income				
Service Charge to and Gift Aid distributed from HRPE	15,950	-	15,950	15,531
Total income	92,884	4,663	97,547	90,321
EXPENDITURE				
Costs of raising funds:				
Fundraising	726	-	726	591
Retail activities	5,979	-	5,979	5,573
Other commercial activities	2,743	-	2,743	3,139
Investment management costs	27	-	27	26
	9,475	-	9,475	9,329
Expenditure on charitable activities:				
Give the palaces the care they deserve	22,393	3,650	26,043	27,034
Transform the way visitors explore their story:				
Public access	30,497	327	30,824	30,292
Interpretation and learning	16,411	1,556	17,967	14,536
Have a wider impact in the world	7,071	-	7,071	5,830
	76,372	5,533	81,905	77,692
Other				
Defined Pension scheme net interest cost	130	-	130	217
Losses (gains) on curtailments	1,763	-	1,763	-
Losses (gains) due to benefit changes	69	-	69	-
	1,962	-	1,962	
Total Expenditure	87,809	5,533	93,342	87,238
Net (losses)/gains on investments	492	-	492	(63)
Net Income / (Expenditure)	5,567	(870)	4,697	3,020
Actuarial (loss)/gain on pension plan	(793)	-	(793)	3,572
Net movement in funds	4,774	(870)	3,904	6,592
Fund balances brought forward at 1 April	43,207	6,396	49,603	43,011
Fund balances carried forward at 31 March	47,981	5,526	53,507	49,603

Notes to the Consolidated Accounts for the year ended 31 March 2019

21. 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 all transactions with Trustees, with the exception of remuneration of Trustees which is covered in Note 6 and donations made by them - £7.5k in year (2017/18: none).

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

HRP is contracted by the Secretary of State for Digital, Culture, Media and Sport to manage the five London palaces on his behalf. This contract has been re-authorised until 31 March 2028.

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

Related party	Connected party (a)	2019 £000	2018 £000	Detail of transaction
BBC	Zeinab Badawi is Chairman of BBC Media Action	4 (nil)	0 (nil)	Charges made by HRPE for filming at our palaces
The Chartered Management Institute (CMI)	Bruce Carnegie-Brown (Trustee of HRP) is president of the CMI	- (nil)	8 (nil)	Charges made by HRPE for an event at The Banqueting House
The Choral Foundation, Chapel Royal, Hampton Court Palace	Sue Hall (Director of HRP) is a trustee of The Choral Foundation	11 (nil)	18 (nil)	Charges made by the Choral Foundation to HRP for choral services and lunchtime recitals at Hampton Court Palace
The Foundation of the Chapels Royal of HM Tower of London	Richard Harrold (Director of HRP) is a trustee	13 (nil)	8 (nil)	Charges made by the Foundation to HRP for choral services at HM Tower of London
The Founders Forum	Rupert Gavin (Chairman of HRP) is on the advisory board of the Founders Forum	- (nil)	20 (nil)	Charges made by HRPE for an event at Kensington Palace
Historic Royal Palaces Inc. (HRP Inc.) (b)	John Barnes (Chief Executive of HRP from July 2017)/ Michael Day (Chief Executive of HRP to June 2017) is President of HRP Inc., Dan Wolfe and Sue Hall (Directors of HRP) are respectively Director and Secretary & Treasurer of HRP Inc.	153 (153)	147 (nil)	Grants received by HRP from HRP Inc. for Hillsborough Castle development project
		115.5 (115.5)	- (nil)	Grants received by HRP from HRP Inc. for Tower of London projects
		36.5 (36.5)	36 (nil)	Grants received by HRP from HRP Inc. for various projects
Jardine Lloyd Thompson Group (JLT)	Bruce Carnegie-Brown (Trustee of HRP) was a non-executive director of JLT (May 2016 to June 2017)	- (nil)	8 (8)	Charges made by JLT to HRP for actuarial services
		- (nil)	1 (nil)	Charge made by HRPE for an event at Tower of London
Incidental Colman Ltd	Rupert Gavin (Chairman of HRP) is Chairman and owner of Incidental Colman Ltd	- (nil)	4 (nil)	Charges made by HRPE for an event at Hampton Court Palace

Notes to the Consolidated Accounts for the year ended 31 March 2019

Related party	Connected party (a)	2019 £000	2018 £000	Detail of transaction
Oxford University	Lord Houghton (Trustee of HRP) is a fellow of St Peters College Oxford	- (nil)	17 (nil)	Charges made by HRPE to Oxford University for an event at Tower of London
Purcell UK (trading name of Purcell Miller Tritton LLP)	Jane Kennedy (Trustee of HRP) is a partner in Purcell UK	110 (nil)	134 (nil)	Charges made by Purcell to HRP for architectural services at Kensington Palace and Banqueting House
Royal Armouries (RA)	Lord Houghton (Trustee of HRP since 1 August 2016) is a trustee of RA	397 (119)	392 (94)	Charges made by RA to HRP for goods and services provided at HM Tower of London
		17 (nil)	14 (1)	Recovery of costs from RA for maintenance, goods and services provided by HRP and HRPE at HM Tower of London
		- (nil)	1 (nil)	Charges made by RA to HRPE for Royalties for merchandising
Royal Collection Trust (RCT), and Royal Collection Enterprises Limited (RCEL), which is a wholly owned subsidiary of RCT	Sir Jonathan Marsden (Trustee of HRP until 21 December 2017) was a director of RCT and RCEL.	76 (4)	129 (nil)	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.
	Sir Michael Stevens (Trustee of HRP) is Keeper of the Privy Purse and a Trustee of The Royal Collection Trust	51 (12)	40 (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, and from HRPE for the purchase of goods for resale.
	Tim Knox (Trustee of HRP)	4 (nil)	- (nil)	Charges made by HRP to RCT for conservation work
Royal Household (RH)	Sir Michael Stevens (Trustee of HRP) is Keeper of the Privy Purse and a Trustee of The Royal Collection Trust	126 (13)	131 (nil)	Charges made by RH to HRP for rent and services provided at Kensington Palace
		35 (25)	23 (20)	Charges made by HRP and HRPE to RH for share of staff costs, grazing licence and filming
The Royal Tennis Court	Michael Day (Ex-Chief Executive of HRP) is a director of The Royal Tennis Court	- (nil)	72 (nil)	Charges made by HRP to The Royal Tennis Court for licences and miscellaneous costs
		- (nil)	17 (nil)	Charges from HRPE to The Royal Tennis Court for tickets sold for RTT
		- (nil)	5 (nil)	Charges made by The Royal Tennis Court to HRPE for venue hire

Notes to the Consolidated Accounts for the year ended 31 March 2019

Related party	Connected party (a)	2019 £000	2018 £000	Detail of transaction
RUSI	Lord Houghton (Trustee of HRP) is a trustee of RUSI	1 (1)	0 (nil)	Charges made by HRP to RUSI for venue hire
Todd Longstaffe-Gowan Ltd	Tim Knox is a director at Todd Longstaffe-Gowan Ltd	27 (4)	26 (nil)	Charges made by Todd Longstaffe-Gowan Ltd to HRP for garden design
Wolfson Foundation	Sir David Cannadine (Trustee of HRP) is a trustee of Wolfson Foundation	- (200)	200 (200)	Grants received by HRP from Wolfson Foundation, primarily for the Hillsborough Castle development project

(a) Copies of the Trustees' register of interests and their biographical details are available from the Head of Governance, Apartment 39, Hampton Court Palace, Surrey KT8 9AU.

(b) Historic Royal Palaces, Inc. is an entity independent of Historic Royal Palaces. Whilst its object is to support the work of Historic Royal Palaces, how this is expressed is the responsibility of the Board alone. This independence is required to maintain US charity status. Current arrangements, in which Historic Royal Palaces' staff have a seat on the Board (Dan Wolfe) and fill the officer posts of the US charity (John Barnes as President and Sue Hall as Secretary and Treasurer), provide sufficient communication and co-operation with the Board to protect our interests whilst retaining the US charity's independence.

22. 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 £2.5m trade debtors (2018: £2.5m). 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 subject to credit and market risk in its investment portfolio (note 12). These risks are mitigated by investing only in investment grade bonds and by using a professional investment manager.

HRP is not subject to any significant foreign currency risk.

24. Post balance sheet events

The financial statements were approved by the Accounting Officer and Trustees on 27 June 2019 and authorised for issue on 3 July 2019.