



HISTORIC ROYAL PALACES

FINANCIAL STATEMENTS
AS AT 31 MARCH 2005

Performance trends and targets

Secretary of State's targets

It is a term of Historic Royal Palaces' contract with the Secretary of State for Culture, Media and Sport that the Trustees agree performance targets with the Secretary of State. Historic Royal Palaces' 2004/5 targets and performance against these agreed targets are reported below.

Visitor satisfaction ratings

Historic Royal Palaces has exceeded all the agreed targets.

	2004/5 Target	2004/5 Actual
Value for money	>0.7	1.07
Enjoyment	>1.25	1.39
Staff helpfulness	>1.25	1.44

Key to visitors' ratings:
extremely good 2
quite good 1
acceptable 0
quite poor -1
very poor -2
(degree of confidence +/- 0.15)

Conservation

Target – Successful delivery of planned conservation programme including:

Hampton Court Palace Great Gatehouse

Hampton Court Palace Tijou Screen

Tower of London Martin Tower

Achieved – A programme of expenditure of £1.2 million. The Great Gatehouse and Tijou Screen finished. The Martin Tower will be completed by the end of June 2005.

Access and learning

Target – Education groups: establish baseline in 2004/5 for total number of users and satisfaction ratings.

New users aged 20+ from Department for Culture Media and Sports' (DCMS) target audiences: establish baseline number for Historic Royal Palaces' sites.

Achieved – Surveys carried out and baseline established.

Financial liquidity

Target – A cash balance on 31 March 2005 of not less than £5.9 million.

Achieved – £12.0 million.

Financial Statements

Trustees

Sir Nigel Mobbs (*Chairman*)
Field Marshal the Rt Hon the Lord Inge KG GCB DL (*Deputy Chairman*)
Bridget Cherry OBE FSA
John Hamer (appointed 27 May 2005)
Angela Heylin OBE
Simon Jones LVO (until 31 March 2005)
Malcolm Reading (appointed 4 April 2005)
Alan Reid
Sir Hugh Roberts KCVO FSA
General Sir Roger Wheeler GCB CBE
Gillian Wolfe CBE (until 31 March 2005)

Executive Board

Michael Day (*Chief Executive, Secretary to the Trustees and Accounting Office*)
John Barnes
Annabelle Boyes
Major General Geoffery Field BD CVO OBE
Rod Giddins
Danny Homan
Graham Josephs
Sally O'Neill

Registered Office

Hampton Court Palace
Surrey KT8 9AU

Auditors of Historic Royal Palaces and the Group

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

Auditors of Historic Royal Palaces Enterprises Ltd

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

Bankers

Barclays Bank plc
Eagle Point
1 Capability Green
Luton LU1 3US

Solicitors

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

Historic Royal Palaces: Registered Charity number 1068852

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

Trustees' Report

Historic Royal Palaces was established in 1998 as a Royal Charter Body with charitable status and is contracted by the Secretary of State for Culture, Media and Sport to manage the palaces on her behalf. It is responsible for the care, conservation and presentation to the public of the unoccupied royal palaces: HM Tower of London, Hampton Court Palace, Kensington Palace State Apartments, the Banqueting House at Whitehall and Kew Palace with Queen Charlotte's Cottage. Historic Royal Palaces is governed by a Board of Trustees, all of whom are non-executive.

The Chief Executive is accountable to the Board of Trustees.

The palaces are owned by The Queen on behalf of the nation.

Historic Royal Palaces is a Non-Departmental Public Body but receives no public revenue funding – all costs are met by income generated by the palaces.

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

Objectives

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

- to administer, conserve, renovate, repair, maintain and improve the palaces to a high standard consistent with their status as buildings of royal, historic and architectural importance; and
- to educate and inform the understanding of the public about the palaces and the skills required for their conservation by providing public access, by exhibition, by the preparation of records, catalogues and inventories, by research and by publication and by such other means as are appropriate.

Review of the developments, activities and achievements during the year

- During the year a lot of hard and inspiring work has been done developing HRP's cause:

Our challenge is to help everyone explore the story of how monarchs and people together shape society, in some of the greatest palaces ever built.

To do our job, we believe in four principles which guide our work and intentions:

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

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

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

Independence. To have a unique task and our own point of view. To challenge ourselves to find new ways to do our work. We are an independent charity, not funded by the government or the Crown, and we are keen to welcome everyone who can support our cause.

Through these principles, we will keep these palaces alive so that more and more people can explore their story.

- Generous financial support from the Heritage Lottery Fund and the Clore Duffield Foundation has enabled two major projects to get underway during 2004/5: the re-presentation of Kew Palace, due to reopen to the public in spring 2006; and a new dedicated learning centre at Hampton Court Palace for use by education and community groups.
- Visitor numbers were up by 4.3% over the previous year, and gross admissions income is up 8%, an increase in ticket price helping to increase the yield.
- Around 80% of the charity's revenues are derived directly or indirectly from the day visitors to the palaces, so building up other income streams is an important strategy in mitigating the risk of reliance on this significant income source. The growth in income from functions and events of over 50% was particularly impressive in this regard.
- In accordance with Treasury guidelines HRP has fully implemented the Accounting Standard FRS17 Retirement Benefits. This recognises the likely liability arising from the Pension Scheme's actuarial deficit in the financial statements. The actuarial gain on the plan for the year was £0.9m (2004 £1.2m) and the corresponding liability as at 31 March 2005 was £4.6m (2004 £6.2m).
- Alongside many other charities in our sector, HRP is very disappointed by the removal in its present form of Gift Aid from day admission income from April 2006. This valuable additional source of income has brought in £961k to date, £266k in the year under review.

Trustees' Report continued

Fixed assets

Details of the movements in tangible fixed assets are shown in Note 10 to the accounts.

Funds and reserves

The Trustees recognise the need to establish a level of general reserves that enables financial stability, is adequate to meet the requirements of working capital and acts as a cushion against fluctuations in income levels.

Reserves enable HRP to make long-term commitments to projects and also to protect our work against short-term financial fluctuations. The Reserves Policy has been reviewed in the year in the light of HRP's new three-year strategic plan. In determining a realistic level of reserves, several key factors were 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 such as Kew Palace and the Clore Learning Centre.

Following this detailed review a target level for free reserves has been set at a minimum of £5m to be achieved by 2008, the end of the three-year plan.

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

Restricted funds

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

Unrestricted funds

These are funds that are expendable at the discretion of the Trustees in furtherance of the charity's objects. Free reserves are that part of the unrestricted fund that are not tied up in fixed assets or designated for other purposes:

- **Fixed asset fund**

Funds that are tied up in fixed assets being used both for charitable purposes and for generating funds, and therefore not available to the charity for other purposes.

- **Designated funds**

Funds have been designated out of general funds to protect long-term commitments to major projects such as Kew and Clore, and other work that spans more than one year.

- **Pension plan**

The FRS17 calculated pension liability is excluded from the free reserve calculation. This liability does not result in an immediate requirement to pay this amount to the pension scheme. Contributions into the plan are being met through planned income. Following the March 2004 triennial actuarial valuation, the Trustees approved an increase in employers' contributions and consideration has been given to the impact of these additional costs on the planned activity levels and cashflow budgets over the three-year plan. The additional costs can be absorbed within existing budgets without jeopardising existing activity levels.

The net pension liability at March 2005, calculated in accordance with FRS17, was £4.6 million (March 2004 £6.2 million).

Details of the retirement benefit scheme are disclosed in Note 8 to the accounts.

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

Trustees

Details of the Trustees are given on page 2.

The Chairman of the Trustees is appointed by The Queen acting on the advice of the Secretary of State. Three Trustees are appointed by The Queen and five Trustees are appointed by the Secretary of State, including, by virtue of his office, the Constable of HM Tower of London. Trustees are appointed having regard to their experience and expertise and the contribution they can make to further the Trust in its objectives.

Trustees' Report continued

Organisational structure

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 themselves and their committees. Such matters include approval of strategic plans and major projects, remuneration matters of the Directors and variation to governing documents.

Equal opportunities policies

Historic Royal Palaces 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 in 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.

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 notice boards, team briefings and a staff newsletter, Palaces Pulse.

Investments policy

It is the policy of Historic Royal Palaces to invest surplus funds in short-term cash deposits within the UK.

Suppliers' payment policy

Historic Royal Palaces 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 Historic Royal Palaces 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 2004/5 63% of supplier invoices were paid within 30 days of date of invoice (70% in 2003/4) and 77% within 40 days (86% in 2003/4).

This payment performance has not been adjusted for invoices which have been delayed for payment due to a query with the supplier.

Sir Nigel Mobbs
Chairman of the Board of Trustees
20 June 2005

Hampton Court Palace
Surrey
KT8 9AU

Statement of Responsibility

Statement of Trustees' responsibilities

Law applicable to incorporated charities in England and Wales requires the Trustees of Historic Royal Palaces 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 Trust 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 Trust and the Group will continue in operation.

The Trustees are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Trust 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.

Sir Nigel Mobbs
Chairman of the Board of Trustees
20 June 2005

Accounting Officer's responsibilities

The Accounting Officer for the Department for Culture, Media and Sport has designated the Chief Executive as the Accounting Officer for the Trust. 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 the Accounting Officer's memorandum issued by HM Treasury and published in Government Accounting.

Michael Day
Chief Executive and Accounting Officer
20 June 2005

Statement on Internal Control

Scope of responsibility

The Trustees and Accounting Officer are jointly responsible for maintaining a sound system of internal control that supports the achievement of Historic Royal Palaces' policies, aims and objectives, while safeguarding the public funds and assets for which the Accounting Officer is personally responsible in accordance with the responsibilities assigned in Government Accounting.

The respective allocation of responsibilities between the Trustees and Accounting Officer (as Chief Executive) are detailed in the Trustees report on pages 3 to 5.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Historic Royal Palaces for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Strategic leadership of the risk management process comes from the Executive Board, and the Trustees and Accounting Officer oversee the process.

Responsibility for Risk Management is laid down in the Risk Management Strategy:

The Chief Executive Officer (CEO) reports annually to the Board of Trustees on the effectiveness of the internal control system established to ensure that the aims, objectives and key performance targets of HRP are achieved in the most economic and effective manner.

The Executive Board:

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

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

Specialist Risk Managers exist within HRP: the Fire, Health & Safety Adviser and the Security Adviser. These specialists are available to provide advice on the management of the risks that fall within their remit, and provide annual reports of assurance to Trustees and the Executive Board.

The Audit Committee is a sub-committee of the Board of Trustees. It reports annually to the Board on the effectiveness of the internal control system. During the year the following Trustees served on the committee: Alan Reid (Chairman), Bridget Cherry and Sir Roger Wheeler.

Internal Audit is responsible for the ongoing examination of and the reporting on the adequacy and effectiveness of HRP's risk management process. The Head of Internal Audit provides an annual report to the CEO/Accounting Officer and the Audit Committee on the adequacy and effectiveness of the risk management process in the year.

External Audit takes account of the risk management process when evaluating the strength of internal controls.

The risk and control framework

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

- a continuing risk assessment programme is in place. This includes regular reviews and updates of the risk register by management. The Audit Committee regularly reviews the changing risk register;
- the Audit Committee meets at least three times a year and reviews and advises on internal control issues raised by internal and external audit;
- the Internal Audit Department takes a risk-based approach to audits and operates in compliance with Government Internal Audit standards (except where this is impractical for this small department);
- progress in implementing internal audit recommendations is monitored by the Executive Board and the Audit Committee;

Statement on Internal Control continued

- the Group has a project assessment and approval process which requires risk assessments to be done on all major projects;
- regular reviews are made of health and safety, environmental and security risks, and the implementation of related policies and procedures;
- new activities and changes to existing processes are routinely reviewed to ensure that adequate controls are in place;
- the IT systems and network are managed in compliance with BS7799 information security standard (except where this is impractical for this small department).

Some of the improvements that have been made during the year include:

- a major new strategic plan has been prepared for the three years to March 2008. This involved identifying key strategic risks and opportunities, and a new Risk Management Strategy will be implemented over 2005/6;
- a three-year health, safety and environmental (HSE) strategy is in place;
- quarterly performance reviews to the Executive Board on HSE performance and progress have been introduced;
- a new integrated HSE policy statement has been adopted;
- the HRP Major Incident Plan (MIP) was finalised, and was tested in departmental desktop exercises;
- HRP has secured the provision of a specialist occupational health advice service;
- record coordinators have been established in all departments;
- every palace/department received a detailed inspection by HRP's Security Adviser and no major problems were found;
- HRP's security instructions were completely reviewed and updated;
- a review was conducted on security training;
- HRP's Data Protection Policy has been updated.

Review of effectiveness

The Trustees and Accounting Officer also have responsibility for reviewing the effectiveness of the system of internal control. This review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Executive Board who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The Trustees and Accounting Officer have carried out this review of the effectiveness of the system of internal control through the mechanisms set out in the previous section. A plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant internal control issues

No significant internal control issues have arisen during the year 2004/5.

Sir Nigel Mobbs
Chairman of the Board of Trustees
20 June 2005

Michael Day
Chief Executive and Accounting Officer

Report of the Remuneration Committee

Membership

The membership of the Remuneration Committee comprises three Trustees. During the year the following Trustees served on the committee: Lord Inge (Chairman), Angela Heylin and Sir Roger Wheeler.

Policy statement

The remit of the Remuneration Committee is governed by the legal framework of Historic Royal Palaces as set out in the Royal Charter. In establishing the level of remuneration for each senior manager, 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. In contrast to directors of public limited companies, the members of the Board of Trustees receive no remuneration. However, they are entitled to claim expenses and to make charges when instructed by the Trust to apply their specialist skills or knowledge. These are set out in Note 6.

Review of activity during the year

At the Annual Salary Review in August 2004 Directors received a 3% salary increase, which was broadly in line with the external market. In addition, the Directors received a performance-related bonus for the 2003/4 period. These bonuses were in line with the Directors' performance-related bonus scheme that was introduced in August 2001. Actual bonus payments were calculated on the basis of the overall performance of the Group and the Directors' individual performance against agreed objectives. Performance-related bonuses for the 2004/5 period have been accrued and will be paid in accordance with the agreed scheme. Details of the emoluments of the Chief Executive are set out in Note 7, together with the salary scales of highest paid employees.

Report of the Auditor to the Trustees of Historic Royal Palaces

I have audited the financial statements on pages 11 to 32. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 14 to 16.

Respective responsibilities of the Trustees, the Chief Executive and the Auditor

As described on page 6, the Trustees and the Chief Executive, as Accounting Officer, are responsible for the preparation of financial statements and for ensuring the regularity of financial transactions. The Trustees and the Chief Executive are also responsible for the preparation of the Trustees' Report. In discharging my responsibilities, as independent auditor, I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession. I have been appointed as auditor by the Secretary of State.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Charities Act 1993, and whether in all material respects the expenditure, income and resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Trustees' Report is not consistent with the financial statements, if Historic Royal Palaces has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 7 to 8 reflects Historic Royal Palaces' compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of Historic Royal Palaces' corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Trustees and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to Historic Royal Palaces' and the group circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Historic Royal Palaces and the Group as at 31 March 2005 and of the incoming resources and application of resources of the Group for the year then ended and have been properly prepared in accordance with the Charities Act 1993; and
- in all material respects the expenditure, income and resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Sir John Bourn
Comptroller and Auditor General
27 June 2005

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

The maintenance and integrity of Historic Royal Palaces' website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Consolidated Statement of Financial Activities

for the year ended 31 March 2005

	Note	Unrestricted funds £000	Restricted funds £000	Total 2005 £000	Total 2004 £000
<i>Incoming Resources</i>					
Activities to further the charity's objects:					
Grants and donations		11	1,434	1,445	5,237
Admissions		29,358	–	29,358	27,226
Concessions		1,060	–	1,060	809
		30,429	1,434	31,863	33,272
Activities to generate funds:					
Retail		8,089	–	8,089	7,843
Functions and events		3,388	–	3,388	2,163
Licences and rents		1,529	–	1,529	1,574
Other		579	3	582	390
		13,585	3	13,588	11,970
Interest		554	50	604	433
Total incoming resources		44,568	1,487	46,055	45,675
<i>Resources Expended</i>					
Costs of generating funds:					
Publicity		956	–	956	649
Retail activities		6,235	–	6,235	6,084
Other commercial activities		1,362	–	1,362	811
		8,553	–	8,553	7,544
Charitable expenditure:					
Conservation and maintenance		8,900	1,170	10,070	10,877
Education and public access		22,510	162	22,672	28,150
Management and administration					
Normal activities		4,729	–	4,729	4,199
Exceptional item	3	707	–	707	194
		36,846	1,332	38,178	43,420
Pension finance costs	8	152	–	152	295
Total resources expended	4	45,551	1,332	46,883	51,259
Net incoming resources before revaluations		(983)	155	(828)	(5,584)
Revaluation of fixed assets	11	399	–	399	271
Actuarial gain on pension plan	8	903	–	903	1,221
Net movement in funds		319	155	474	(4,092)
Fund balances brought forward at 1 April 2004	5	14,240	1,154	15,394	19,486
Fund balances carried forward at 31 March 2005	5	14,559	1,309	15,868	15,394

The amounts shown above derive from continuing activities. There were no recognised gains or losses other than those disclosed above. The notes on pages 14 to 32 form an integral part of these accounts.

Consolidated and Trust Balance Sheets

as at 31 March 2005

	Note	Group 2005 £000	Trust 2005 £000	Group 2004 £000	Trust 2004 £000
<i>Fixed assets:</i>					
Intangible assets	9	139	139	122	122
Tangible assets	10	12,849	12,849	13,049	13,049
		12,988	12,988	13,171	13,171
<i>Current assets:</i>					
Stocks – goods for resale		993	–	1,185	–
Debtors	12	2,504	2,887	2,394	4,122
Short-term cash deposits		6,617	6,617	8,160	7,160
Cash at bank and in hand		5,375	4,714	4,466	3,812
		15,489	14,218	16,205	15,094
<i>Creditors:</i>					
Amounts falling due within one year	13	7,412	6,141	7,520	6,409
Net current assets		8,077	8,077	8,685	8,685
Total assets less current liabilities		21,065	21,065	21,856	21,856
<i>Provision for liabilities and charges</i>	14	556	556	297	297
Net assets excluding Pension Plan liability		20,509	20,509	21,559	21,559
<i>Pension Plan liability</i>	8	4,641	4,641	6,165	6,165
Net assets including Pension Plan liability		15,868	15,868	15,394	15,394
Unrestricted funds		14,559	14,559	14,240	14,240
Restricted funds		1,309	1,309	1,154	1,154
Total funds	5	15,868	15,868	15,394	15,394

These financial statements were approved by the Trustees and the Accounting Officer on 20 June 2005 and were signed on their behalf by:

Sir Nigel Mobbs
Chairman of the Board of Trustees

Michael Day
Chief Executive and
Accounting Officer

The notes on pages 14 to 32 form an integral part of these accounts.

Consolidated Cash Flow Statement

	2005	2004
<i>Cash flow statement</i>	<i>£000</i>	<i>£000</i>
Net cash inflow from operating activities	(130)	2,340
Returns on investment and servicing of finance:		
Interest received	604	511
Taxation paid	(3)	(3)
Investing activities:		
Purchase of tangible assets	(1,048)	(3,380)
Purchase of intangible assets	(57)	(135)
Management of liquid resources:*		
Net sale of short-term deposits	1,543	396
Increase/(Decrease) in cash	909	(271)

Reconciliation of net incoming resources to net cash inflow from operating activities

	2005	2004
	<i>£000</i>	<i>£000</i>
Net incoming resources from charitable and trading activities	(828)	(5,584)
Interest receivable	(604)	(433)
Taxation	3	2
Pension scheme: non-cash movements	(621)	–
Depreciation	1,625	1,314
Loss on disposal of fixed assets	62	49
Decrease/(Increase) in stocks	192	(63)
(Increase)/Decrease in debtors	(110)	5,680
(Decrease)/Increase in creditors: current liabilities	(108)	1,117
Increase in provisions for liabilities and charges	259	258
Net cash inflow from operating activities	(130)	2,340

Analysis of net funds

	2005	2004	Change
	<i>£000</i>	<i>£000</i>	in year <i>£000</i>
Cash at bank and in hand	5,375	4,466	909

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

Notes to the Consolidated Accounts

for the year ended 31 March 2005

I Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Trust, 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 accounting format and policies are in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities dated November 2000 (the SORP). Without limiting the information given, the accounts meet the requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board, so far as those requirements are applicable. The financial statements have been prepared under the historic cost convention, as modified by the inclusion of fixed assets at their depreciated current cost (in accordance with HM Treasury guidelines). No separate statement of financial activities has been presented for the Trust alone as permitted by section 230 of the Companies Act 1985 and paragraph 304 of the SORP.

c) Basis of consolidation

The Group accounts consolidate HRP and its subsidiary undertaking, HRPE, which has a co-terminous year end. Consolidation has been carried out on a line-by-line basis.

d) Funds

Incoming resources and resources expended are allocated to particular funds according to their purpose.

Unrestricted fund – the unrestricted fund includes income from admissions, donations and other income received without restriction including retained profits of HRPE. Unrestricted funds are available for use at the discretion of the Trustees in furtherance of the general objectives of the charity. Trustees may earmark unrestricted funds for a particular project or use, without restricting or committing the funds legally. Such amounts are known as designated funds.

Restricted funds – restricted funds include those receipts which are subject to specific restrictions imposed by donors, including grants towards specific conservation and improvement projects undertaken at the palaces. Funds are transferred to the unrestricted fund as and when restrictions are satisfied.

e) Income and expenditure

All income and expenditure is accounted for on an accruals basis. Expenditure is classified under the principal categories of costs of generating funds and charitable expenditure, rather than the type of expense, in order to provide more useful information to users of the financial statements.

The expenditure classifications comprise direct expenditure including direct staff costs attributable to the activity. Management and administration costs are those incurred in connection with the management of the Group's and the Trust's assets, organisation, administration and compliance with constitutional and statutory requirements.

Notes to the Consolidated Accounts

for the year ended 31 March 2005

l Accounting policies (continued)

f) Notional cost of capital

HM Treasury requires Non-Departmental Public Bodies to make a notional charge in their accounts for the cost of capital employed in their activities, calculated as 3.5% of average capital employed. Given the nature of the Group's business and its funding arrangements, notably the fact that the Group does not receive grant-in-aid, the Trustees consider it would be inappropriate to include such a charge in the Statement of Financial Activities. Had such a notional charge been included, it would have amounted to £383,869 for the year ended 31 March 2005.

g) Intangible fixed assets

From 1 April 2003 bought-in software licences costing more than £2,000 are capitalised and included at cost within intangible assets and revalued annually using appropriate indices. The amount of the revaluation is credited (or debited) to a Revaluation Fund. Software purchased prior to 1 April 2003 is capitalised within tangible fixed assets. Depreciation is provided to write off the revalued cost of bought-in software (assuming no residual value) by equal instalments over 5 years.

h) Tangible fixed assets

Tangible fixed assets costing more than £2,000 are capitalised and included at cost and revalued annually using appropriate indices. The amount of the revaluation is credited (or debited) to a Revaluation Fund. Assets are capitalised at a value net of VAT as, in accordance with SSAP 5, it is not practicable to include. All expenditure on repairing and maintaining the original fabric of the buildings and on non-revenue generating improvements is written off in the year incurred. Following the matching principle, all improvements to the fabric of the buildings, with the aim of raising or increasing revenue, are capitalised. New buildings constructed by the Trust are depreciated over a period of 20 years. Assets purchased by or gifted to the Trust's predecessors prior to September 1989 have not been capitalised. Depreciation is provided to write off the revalued cost of tangible fixed assets (assuming no residual value) 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 (purchases up to 31 March 2003)	5 years
Computer hardware	3 years

Recognising that the Group owns and purchases assets that are unlikely to depreciate in value and have a life in excess of 50 years, a category of assets known as 'artefacts' exists. Such assets are held for the purpose of interpretation within the palaces. Artefacts are not depreciated as their residual value is considered to be higher than the carrying value. Regular impairment reviews of artefacts are undertaken. The status of the palaces and much of their contents is stated in Note 20.

Notes to the Consolidated Accounts

for the year ended 31 March 2005

l Accounting policies (continued)

i) Investment in subsidiary

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

j) Stocks

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

k) 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.

l) Pensions

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

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

m) Taxation

As a charity, the Trust is exempt from corporation tax under section 505 ICTA 1988. HRPE passes its profits after tax by Gift Aid to the Trust 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 70% of VAT incurred by HRP is irrecoverable.

n) Gifts in kind

Fixed assets and other items donated to the Group are included as income at market value at the time of receipt.

o) Grants receivable

Grants are accounted for on a receivable basis.

Notes to the Consolidated Accounts

for the year ended 31 March 2005

2 *Historic Royal Palaces Enterprises Ltd*

The Trust has one wholly owned trading subsidiary, Historic Royal Palaces Enterprises (HRPE), with a paid-up share capital of £2.00. HRPE is incorporated in the UK. The principal activities of the company are retailing and functions and other events held at the palaces managed by the Trust. A summary of its trading results and its net assets is shown below. Audited accounts are filed with the Registrar of Companies.

Profit and loss account

	2005 £000	2004 £000
Turnover	12,546	11,167
Cost of sales	(3,353)	(3,334)
Gross profit	9,193	7,833
Administrative expenses	(6,736)	(5,593)
Interest receivable	30	69
Net profit	2,487	2,309
Amount passed as Gift Aid to HRP	(2,484)	(2,307)
Taxation	(3)	(2)
Retained in subsidiary	–	–

Balance Sheet as at 31 March 2005

	2005 £000	2004 £000
Stocks – goods for resale	993	1,185
Debtors	582	384
Short-term cash deposits	–	1,000
Cash	661	654
Current liabilities	(2,236)	(3,223)
Net assets	–	–
Share capital and reserves	–	–

3 *Exceptional item*

Loss of office

Included under 'Management and administration' is £707,397 which was incurred or accrued for both redundancies and as compensation for loss of office for a number of staff (2004 £193,941).

Notes to the Consolidated Accounts

for the year ended 31 March 2005

4 Total resources expended

	Staff costs £000	Other £000	Depreciation £000	Total 2005 £000	Total 2004 £000
Costs of generating funds					
Publicity	446	508	2	956	649
Retail activities	1,858	4,077	300	6,235	6,084
Other commercial activities	126	1,159	77	1,362	811
	2,430	5,744	379	8,553	7,544
Charitable expenditure					
Conservation and maintenance	3,959	5,779	332	10,070	10,877
Education and public access	9,630	12,205	837	22,672	28,150
Management and administration					
Normal activities	2,971	1,681	77	4,729	4,199
Exceptional items	707	–	–	707	194
	17,267	19,665	1,246	38,178	43,420
Pension finance costs	152	–	–	152	295
Total	19,849	25,409	1,625	46,883	51,259

	Total 2005 £000	Total 2004 £000
Resources expended include charges for:		
Auditors' remuneration:		
Audit		
– HRP	21	21
– HRPE	14	14
Other services		
– HRP (Grant Thornton)	–	4
– HRPE	–	–
Hire of equipment:		
Computers	134	155
Plant and machinery	153	139
Other	170	180
Travel and subsistence	148	118
Insurance (including public and product liability and professional indemnity)	188	163
Depreciation and other amounts written off to tangible fixed assets:		
Owned	1,625	1,314
Corporation tax	3	2

Notes to the Consolidated Accounts

for the year ended 31 March 2005

5 Total funds

	Funds as at 1 April 2004	Incoming resources	Resources expended	Re- valuations	Transfers between funds	Funds as at 31 March 2005
	£000	£000	£000	£000	£000	£000
Unrestricted funds						
General (Free) reserves	7,234	44,568	(44,545)	–	(3,598)	3,659
Designated funds	–	–	–	–	2,553	2,553
Fixed assets	12,690	–	(1,543)	–	1,045	12,192
Re-valuation	481	–	(84)	399	–	796
Pension plan	(6,165)	–	621	903	–	(4,641)
Total unrestricted funds	14,240	44,568	(45,551)	1,302	–	14,559
Restricted funds						
Tower Environs Scheme	–	723	(723)	–	–	–
Kew Palace project	1,008	360	(372)	–	–	996
Clore Learning Centre	–	303	(110)	–	–	193
Other	146	101	(127)	–	–	120
Total restricted funds	1,154	1,487	(1,332)	–	–	1,309
Total funds	15,394	46,055	(46,883)	1,302	–	15,868

Designated Funds

Funds have been designated out of general reserves to protect expenditure on long-term commitments such as Kew and Clore and a discretionary projects reserve to cover specific projects that have been identified by Directors.

Restricted funds

The Tower Environs Scheme Fund was established to support a series of major improvements to the immediate environs of the Tower of London, to a standard that befits its status as a World Heritage Site. This work was completed during the year and on 9 July 2004 HM The Queen performed the opening ceremony for the new Tower Hill.

The Kew Palace project is a major programme to conserve and repair the fabric of the building and undertake a major re-presentation of the interior. Completion and re-opening is scheduled for 2006. Heritage Lottery Fund have approved a grant of up to £1.6 million towards this project.

The Clore Learning Centre is a new project to provide enhanced education, interpretation and access by establishing a dedicated centre for learning at Hampton Court. This centre will be the focus from which our present education service is expanded and new learning opportunities are made available to a wider audience. The project is planned to be completed in 2007.

Notes to the Consolidated Accounts

for the year ended 31 March 2005

5 Total funds (continued)

	2005 £000	2004 £000
Restricted income received during the year was from the following sources:		
Heritage Lottery Fund	852	3,892
Pool of London Partnership	–	43
European Commission Research Directorate General	46	21
Other grants	20	25
Total grant income	918	3,981
Clore Duffield Foundation	300	–
Private benefactors – Kew Palace project	153	1,000
The Gosling Foundation	–	200
Other donations	63	56
Total donations	516	1,256
Other restricted income	53	5
Total restricted income	1,487	5,242

6 Remuneration of Trustees

None of the Trustees received any remuneration during the year in connection with services to the Trust or its subsidiary. Reimbursement of travel expenses incurred by the Trustees whilst carrying out their responsibilities for the Trust totalled £566 (2004 £790) for the year ending 31 March 2005. Expenses were reimbursed to four (2004 three) Trustees. HRP does not provide liability insurance for Trustees.

7 Staff numbers and costs

The average number of full-time equivalent staff (including senior management) both employed and from agencies (as required by HM Treasury) during the year was as follows:

	2005 No. of employed staff	2005 No. of agency staff	2005 Total No. of staff	2004 Total No. of staff (Restated)
Publicity	9	–	9	8
Retail activities	84	2	86	76
Other commercial activities	11	2	13	11
Conservation and maintenance	132	2	134	132
Education and public access	341	8	349	342
Management and administration	51	3	54	53
Total	628	17	645	622

The numbers of staff for 2004 have been restated to reflect both the inclusion of agency staff and a number of staff who were inadvertently omitted.

Notes to the Consolidated Accounts

for the year ended 31 March 2005

7 Staff numbers and costs (continued)

The aggregate payroll costs of these staff were as follows:	2005	2004
	£000	£000
Wages and salaries	15,130	14,078
Loss of office	707	194
Social security costs	1,329	1,132
Pension costs	2,178	2,564
Total	19,344	17,968
Agency staff	505	352
Total	19,849	18,320

The number of employees excluding the Chief Executive whose remunerations (excluding pension contributions) were:

	2005	2004
	No. of staff	No. of staff
£50,001 to £60,000	10	7
£60,001 to £70,000	–	1
£70,001 to £80,000	2	1
£80,001 to £90,000	1	2
£90,001 to £100,000	2	2
£100,001 to £110,000	3	1

Of the 18 higher paid staff (2004: 14), 15 were in a defined benefit scheme (2004 11) and 2 were in a defined contribution scheme where the employer contributions were £11,259 (2004 £3,549).

The aggregate emoluments of the Chief Executive were as follows:

	Age	Total Salary	Pension contributions made to Group Personal Pension Plan
Michael Day	52	£122,330	£9,180

The emoluments for the two Chief Executives in 2003/4 (excluding pension benefits) were as follows:

Alan Coppin	£40,368;
Michael Day	£89,087.

Notes to the Consolidated Accounts

for the year ended 31 March 2005

8 Retirement benefits

a) Defined Benefit Pension Scheme

The Trust operates a defined benefit scheme in the UK. The scheme is closed to new entrants. As a consequence the current service cost calculated under the projected unit method can be expected to increase over time, as the average age of the membership increases. A full actuarial valuation was carried out at 1 April 2004 and updated to 31 March 2005 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary were:

	At 31 March 2005	At 31 March 2004
Rate of increase in salaries	3.9%	3.9%
Rate of increase in pensions in payment where LPI applies (LPI – Limited Price Indexation)	2.8%	2.7%
Discount rate	5.4%	5.5%
Inflation assumption	2.8%	2.7%
Loading for mortality improvements	5.25%	5.0%
Pre and post-retirement mortality table (PA – Pension Annuitant Tables)	PA92 c2015	PA92 c2015

The assets in the scheme and the expected return were:

	Long-term rate of return expected at 31 March 2005	Value at 31 March 2005 £000	Long-term rate of return expected at 31 March 2004	Value at 31 March 2004 £000
Equities	6.6%	15,045	6.9%	12,123
Bonds	4.6%	3,575	4.9%	2,318
Other (property, cash, etc)	4.6%	496	4.9%	316
Total market value of assets		19,116		14,757
Present value of scheme liabilities		(23,757)		(20,922)
Net pension liability		(4,641)		(6,165)

The amounts disclosed below are included in the Statement of Financial Activities (SOFA) and the balance sheet.

	2005 £000	2004 £000
Analysis of the amount charged to resources expended in the SOFA		
Current service cost	1,915	2,228

	2005 £000	2004 £000
Analysis of the finance costs charged to resources expended in the SOFA		
Expected return on pension scheme assets	1,042	682
Interest on pension scheme liabilities	(1,194)	(977)
Net return	(152)	(295)

Notes to the Consolidated Accounts

for the year ended 31 March 2005

8 Retirement benefits (continued)

Analysis of amount recognised in funds movement

	2005	2004
	£000	£000
Actual return less expected return on pension scheme assets	984	2,056
Experience gain arising on the scheme liabilities	806	41
Changes in assumptions underlying the present value of the scheme liabilities	(887)	(876)
Actuarial gain	903	1,221

Movement in funds during the year

	2005	2004
	£000	£000
Deficit in scheme at beginning of the year	(6,165)	(7,386)
Movement in year:		
Current service cost	(1,915)	(2,228)
Contributions	2,688	2,523
Other finance costs	(152)	(295)
Actuarial gain	903	1,221
Deficit in scheme at end of the year	(4,641)	(6,165)

The inclusion of the movements in the pension fund within the SOFA are shown in Note 5.

Contributions are currently paid at the rate of 22.7% of pensionable pay, plus £56,100 per month to fund the past service deficit. This level of contributions has been set and agreed with the scheme actuary, following the March 2004 triennial valuation, and is set at a level to fund the past service deficit (and its national related income growth) over a period of 10 years, in addition to funding the current service cost.

An underpayment of £4,289 of Employers Contribution into the Defined Benefit Pension Scheme has been made over the last year due to a misinterpretation of the Schedule of Contributions. This amount has been accrued in these accounts and already paid into the pension scheme. However, because technically contributions have not been made in accordance with the schedule of contributions the auditors of the pension scheme (Grant Thornton) have qualified their opinion accordingly.

Notes to the Consolidated Accounts

for the year ended 31 March 2005

8 Retirement benefits (continued)

History of experience gains and losses

	2005	2004	2003
	£000	£000	£000
Difference between the expected and actual return on scheme assets:			
Amount	984	2,056	(3,462)
Percentage of scheme assets	5%	14%	(36%)
Experience gain on scheme liabilities:			
Amount	806	41	104
Percentage of the present value of the scheme liabilities	3%	0%	1%
Changes in assumptions underlying the present value of the scheme liabilities:			
Amount	(887)	(876)	(924)
Percentage of the present value of the scheme liabilities	(4%)	(4%)	(5%)
Total actuarial gain/(loss):			
Amount	903	1,221	(4,282)
Percentage of the present value of the scheme liabilities	4%	6%	(25%)

b) Defined Contribution Scheme

A group personal pension scheme based on defined contributions was set up for new members of staff with effect from October 2002. The cost for the year was £161,777 (2004 £44,557), with £17,264 outstanding contributions at the balance sheet date (2004 £7,861).

Notes to the Consolidated Accounts

for the year ended 31 March 2005

9 Intangible fixed assets

Software licences
£000

Cost as re-valued

Balance as at 1 April 2004	135
Additions	57
Disposals	—
Indexation in the year	(3)
Balance as at 31 March 2005	189

Accumulated depreciation

Balance as at 1 April 2004	13
Charge for the year	37
Disposals	—
Indexation of accumulated depreciation	—
Balance as at 31 March 2005	50

Net book value

As at 31 March 2005	139
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As at 1 April 2004	122
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The net book value as at 31 March 2005 represents intangible fixed assets used for:

Costs of generating funds

Publicity	—
Retail activities	—
Other commercial activities	—

Charitable expenditure

Conservation and maintenance	—
Education and public access	39
Management and administration	100
	139

Notes to the Consolidated Accounts

for the year ended 31 March 2005

10 Tangible fixed assets

	Buildings & refurbishments	Fixtures & fittings	Furniture, equipment & exhibitions	Computers	Plant, machinery & vehicles	Artefacts	Assets in course of construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost as re-valued								
Balance as at 1 April 2004	7,338	3,527	2,593	469	2,880	2,792	2,236	21,835
Additions	589	14	112	44	55	147	87	1,048
Disposals	–	(19)	(79)	(10)	(132)	(47)	(9)	(296)
Transfers	1,034	–	299	–	820	43	(2,196)	–
Indexation in the year	599	(27)	(19)	(10)	39	–	–	582
Balance as at 31 March 2005	9,560	3,495	2,906	493	3,662	2,935	118	23,169
Accumulated depreciation								
Balance as at 1 April 2004	2,340	2,292	2,156	344	1,654	–	–	8,786
Charge for the year	777	301	172	51	287	–	–	1,588
Disposals	–	(16)	(75)	(8)	(127)	–	–	(226)
Indexation of accumulated depreciation	191	(18)	(16)	(8)	23	–	–	172
Balance as at 31 March 2005	3,308	2,559	2,237	379	1,837	–	–	10,320
Net book value								
As at 31 March 2005	6,252	936	669	114	1,825	2,935	118	12,849
As at 1 April 2004	4,998	1,235	437	125	1,226	2,792	2,236	13,049

The net book value as at 31 March 2005 represents fixed assets used for:

Costs of generating funds:

Publicity	–	–	24	–	–	–	–	24
Retail activities	1,291	654	60	12	376	–	–	2,393
Other commercial activities	3,531	–	6	–	383	–	–	3,920

Charitable expenditure:

Conservation and maintenance	–	155	48	–	217	–	–	420
Education and public access	1,430	127	531	14	849	2,935	118	6,004
Management and administration	–	–	–	88	–	–	–	88
	6,252	936	669	114	1,825	2,935	118	12,849

Notes to the Consolidated Accounts

for the year ended 31 March 2005

11 Historic cost accounting

Fixed assets have been revalued using indices provided by the Office for National Statistics. Had HRP used historic cost accounting, the net book value would be £12,192,000 and the depreciation for the year would be £1,541,000.

	2005	2004
	£000	£000
Revaluation fund		
Balance as at 1 April 2004	481	248
Disposals	(8)	2
Indexation in the year	579	557
In year depreciation on re-valued element	(84)	(38)
Indexation of accumulated depreciation	(172)	(288)
Balance as at 31 March 2005	796	481

12 Debtors

	Group	Trust	Group	Trust
	2005	2005	2004	2004
	£000	£000	£000	£000
Trade debtors	1,186	675	754	467
Amounts due from subsidiary	–	965	–	2,112
Other debtors	280	278	570	555
Prepayments and accrued income	1,038	969	1,070	988
	2,504	2,887	2,394	4,122

Within debtors, £21,847 is due after more than one year.

13 Creditors: amounts falling due within one year

	Group	Trust	Group	Trust
	2005	2005	2004	2004
	£000	£000	£000	£000
Trade creditors	744	644	1,329	1,143
Taxation and social security	660	418	379	371
Other creditors	671	541	595	259
Accruals	4,358	4,187	4,566	4,391
Deferred income	979	351	651	245
	7,412	6,141	7,520	6,409

Within creditors, £106,846 is due after more than one year.

Notes to the Consolidated Accounts

for the year ended 31 March 2005

14 Provision for liabilities and charges

	Early Retirement Scheme £000	Contracts £000	Total £000
Balance as at 1 April 2004	18	279	297
New provisions in the year	–	269	269
Amounts charged in the year	(10)	–	(10)
Balance as at 31 March 2005	8	548	556

All provisions are payable within one year.

The Early Retirement Scheme is operated by the Principal Civil Service Pension Scheme (PCSPS). This scheme gives retirement benefits to certain qualifying employees who took early retirement and had pension benefits retained in the PCSPS. HRP is responsible for incremental contributions to PCSPS until the qualifying former employees reach normal retirement age.

Contracts provisions include amounts that will probably be due following claims by contractors.

15 Financial instruments

FRS 13, *Derivatives and other financial instruments*, requires disclosure of the role financial instruments have had during the period in creating or changing the risks the Group faces in undertaking its activities.

As permitted by FRS 13, debtors and creditors maturing or becoming payable within 12 months from the balance sheet date have been omitted from this note.

Liquidity risk

In excess of two thirds of the Group's revenues are derived directly or indirectly from the day visitors to the palaces. While analysis has shown the volume of visitors to be relatively stable in the long term, a number of external factors have reduced visitor numbers in the last four years. Key among these has been increased competition from new and improved visitor attractions in the London area, and the impact on the tourism market of the foot-and-mouth outbreak and the September 11 terrorist attacks during 2001, followed by the war with Iraq in 2003. These have underlined the importance of the Group's long-term strategies to maintain adequate reserves while diversifying income streams. Another important strategy was to put in place a borrowing facility. Both DCMS and HM Treasury have now given approval for HRP to enter into short-term borrowings of up to £4 million from a commercial bank should circumstances require.

Notes to the Consolidated Accounts

for the year ended 31 March 2005

15 Financial instruments (continued)

Investments and interest rate risk

The reserves and investments policies of the Group are outlined in the Trustees' Report (pages 3 to 5). Interest income is 1% of the revenues of the Group and the interest rate is, therefore, not a significant risk for the Group.

Financial assets

	Total	Non-interest bearing cash held	Floating-rate cash held	Fixed-rate short-term cash deposits held	Fixed-rate weighted average interest rate %
	£000	£000	£000	£000	
At 31 March 2005					
Sterling	11,992	42	5,333	6,617	4.7%
At 31 March 2004					
Sterling	12,626	41	4,425	8,160	4.0%

All fixed-rate financial assets will mature within 12 months from the balance sheet date.

The book value equals the fair value of the financial assets held.

Financial liabilities

There were no interest bearing financial liabilities requiring disclosure under FRS13. The provision for contract amounts as disclosed in note 14 is interest free.

Foreign currency risk

Foreign currency transactions are not material.

16 Financial commitments under operating leases

	Group 2005 £000	Trust 2005 £000	Group 2004 £000	Trust 2004 £000
Operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:				
Land and buildings:				
More than five years	209	169	209	169
Others:				
Within one year	47	37	32	31
Between two to five years	92	86	104	100
Total payable within one year	348	292	345	300

Notes to the Consolidated Accounts

for the year ended 31 March 2005

17 Capital commitments

	Group 2005 £000	Trust 2005 £000	Group 2004 £000	Trust 2004 £000
Contracted capital commitments as at 31 March 2005, for which no provision has been made in the accounts:				
Contracted	1,765	1,765	1,609	1,609
Authorised	7,568	7,568	2,753	2,753
	9,333	9,333	4,362	4,362

Commitments include £2,197,000 (2004 £357,500) relating to projects that are being funded by donations from third parties.

18 Contingent liabilities

Either HRP or the Secretary of State for Culture, Media and Sport may give one year's notice of termination of the contract to manage the palaces. Upon termination, a calculated net asset value would revert to the Secretary of State, being the lower of the value of the net assets transfer of £7.795m 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.

A number of claims are outstanding as at 31 March 2005. HRP is contesting these and does not believe a material liability will arise.

19 Financial key performance indicators

Financial key performance indicators for the Trust are stated on page 1.

Notes to the Consolidated Accounts

for the year ended 31 March 2005

20 Related party transactions

This note lists material transactions with other entities in which either Trustees or employees of Historic Royal Palaces or their spouse hold positions of authority. It also details material transactions with members of the Royal Family and all transactions with Trustees (with the exception of remuneration of Trustees which is covered in Note 6). The palaces and much of their contents are held by The Queen in right of crown. These contents are the responsibility of the Royal Collection Department of the Royal Household.

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

Related party	Connected party	2005 £000	2004 £000	Detail of transaction
Department for Culture, Media and Sport (DCMS)	The Secretary of State has contracted HRP to manage the palaces. HRPE Ltd is a wholly owned subsidiary of HRP.	2 (1)	nil nil	Charges made by HRPE for functions held at HM Tower of London.
HRH The Prince of Wales	HM The Queen	10 nil	5 nil	Charges made by HRPE for a function held at Kensington Palace.
HRH The Duchess of Gloucester	HM The Queen	3 nil	nil nil	Charges made by HRPE for functions at Kensington Palace.
Slough Estates PLC	Sir Nigel Mobbs (Trustee and Chairman of the Board of HRP Trustees) is a director of Slough Estates plc.	nil nil	6 nil	Charges made by HRPE for functions held at HM Tower of London.
		10 (10)	nil nil	Charges made by HRPE for Associate Corporate Membership.
Sir Nigel Mobbs	Trustee and Chairman of the Board of HRP Trustees.	10 nil	nil nil	Donation received by HRP from Sir Nigel Mobbs for the Kew Palace re-presentation project.
BAE Systems	The Lord Inge (Trustee of HRP) is an Advisor to BAE.	7 (2)	6 nil	Charges made by HRPE for functions at Hampton Court Palace, Kensington Palace and HM Tower of London.
Royal Collection Trust (RCT) and Royal Collection Enterprises Limited (RCEL) which is a wholly owned subsidiary of RCT.	Alan Reid (Trustee of HRP) is a Trustee of RCT and is the Chairman of RCEL. Sir Hugh Roberts (Trustee of HRP) is a Director of RCEL.	nil nil	42 (3)	Charges made by HRPE to RCT for cleaning and conservation of tapestries and historic garments.
		nil nil	3 nil	Charges made by HRP to RCEL for audit fees.
		10 (10)	nil nil	Charges made by HRP to RCT for tapestry conservation.
		5 nil	8 (1)	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.
		13 (9)	15 (13)	Recovery by RCT from HRP of a proportion of the costs of maintaining Royal Collection items displayed in the palaces.

Notes to the Consolidated Accounts

for the year ended 31 March 2005

20 Related party transactions (continued)

Related party	Connected party	2005 £000	2004 £000	Detail of transaction
Royal Armouries (RA)	General Sir Roger Wheeler (Trustee of HRP) is a Trustee of RA.	117 (75)	109 (33)	Payment by HRP to RA for goods and services provided at HM Tower of London.
		41 (26)	11 nil	Recovery of costs from RA for maintenance, goods and services provided by HRP at HM Tower of London.
		19 nil	17 nil	Purchases by HRPE of goods for resale.
Gardiner and Theobald (G&T)	Simon Jones (Trustee of HRP) is a senior partner of G&T	66 (25)	49 nil	Charges to HRP by G&T for cost management services in connection with the Tower Environs Scheme and the Kew Palace re-presentation project.
Clore Duffield Foundation	Gillian Wolfe (Trustee of HRP) is a Special Advisor to the Clore Duffield Foundation.	300 nil	nil nil	Donation received by HRP for the Clore Learning Centre at Hampton Court Palace.
The Attingham Trust	Sir Hugh Roberts is a member of the Council of the Attingham Trust.	2 nil	2 nil	Payment by HRP for training.
Thales Corporate Services Limited	General Sir Roger Wheeler (Trustee of HRP) is a non-executive director of Thales UK plc	nil nil	3 nil	Charges made by HRPE for functions held at HM Tower of London.
Nicholas Trading	Michael Nicholas (employee of HRP) is the son of the owner of Nicholas Trading.	4 nil	nil nil	Payment by HRP for repair and replacement of chairs at the Banqueting House, Whitehall.
Pell Frischmann Consultants Limited (PFC)	Robert Hill (part-time employee of HRP) is a consultant for PFC.	nil nil	6 nil	Charges to HRP by PFC for professional services in connection with the Tower Environs Scheme.

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