



## **Historic Royal PALACES**

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

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

# **Financial Statements**

As at 31 March 2006

## Trustees' report

**Trustees** Sir Nigel Mobbs (*Chairman* - until 23 September 2005)  
Charles Mackay (*Chairman* - appointed 5 May 2006)  
Field Marshal the Rt Hon the Lord Inge KG GCB DL (*Deputy Chairman; Acting Chairman* - from 24 September 2005 to 4 May 2006)  
Bridget Cherry OBE FSA  
John Hamer  
Angela Heylin OBE  
Malcolm Reading  
Alan Reid  
Sir Hugh Roberts KCVO FSA  
General Sir Roger Wheeler GCB CBE

**Executive Board** Michael Day  
(*Chief Executive, Secretary to the Trustees and Accounting Officer*)  
John Barnes  
Annabelle Boyes  
Major General Geoffrey Field CB 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  
1 Churchill Place  
Canary Wharf  
London E14 5HP

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

Historic Royal Palaces: Registered Charity number 1068852  
Historic Royal Palaces Enterprises Ltd: Company limited by share capital, registered number 3418583

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 Public Corporation and receives no public revenue funding - all costs are met by self-generated income.

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

## Objectives and activities

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;
- 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.

## 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 an independent charity, not funded by the government or the Crown, and we are keen to welcome everyone who can support our cause.

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

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

We are guardians of five of the nation's most important historic sites. Two are World Heritage Sites, four are Scheduled Ancient Monuments, and one is a Grade I listed building. Our responsibility covers the fabric of the buildings, estates and landscapes, interiors, contents, and the 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 - the inherited backlog that we continue to work on - is set out in the *State of the Estate* and forthcoming *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. Historic Royal Palaces believes history, beauty and art have the power to inspire, and that everyone wants to understand more of the world they live in. People make their own meaning and we can support this by helping our visitors make connections to our stories. In the total experience that people have, from planning a visit to the memories they take away, our aim is to inspire learning for everyone – every Historic Royal Palaces activity is a learning activity. Delighting our customers is also critical to our future financial prosperity: we depend on this stream for the majority of our income. 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**

We have made a major investment during 2005/6 in work on our Cause and Identity. This work is now complete and we have already begun to apply it and appreciate its value.

Our priority now is to use this investment across all our communication and public-facing activities to build awareness, support and influence for Historic Royal Palaces as widely as possible.

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

During 2005/6 we have developed and implemented a range of new programmes designed to enable staff to 'live the Cause' and change behaviour. Crucially, this has involved the design and roll-out of Historic Royal Palaces' own Performance Framework, which defines for all staff what doing their jobs well looks like. Alongside the heavy and demanding core HR services workload, this change programme will continue over the next three years to drive performance improvement and culture change.

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

The July 2005 bombings cost Historic Royal Palaces over £5 million in lost income. We were able to respond through selective use of reserves plus a range of cuts or deferrals in projects and programmes, new income and re-budgeting. The impact on visitor numbers is expected to be felt well into 2006/7, leading to a downwards revision of our strategic plan forecasts for the next three years. We plan to address this issue in our four major income generating activities: visitor admissions, retail, functions and events and charitable fundraising.

## Achievements and Performance

Despite the impact of the events of July 2005, we have made progress in all of these main strategic areas. Among the headlines are:

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

- Major conservation projects have proceeded, including the Hampton Court Palace lead roofs and the Byward Tower at Tower of London. The Great Gatehouse at Hampton Court Palace was finished.
- Conservation programmes have progressed and the Conservation and Collection Care team have adopted the concept *Inside Out* as the basis for future work.
- New gardens projects are under way; Kensington Palace gardens management taken on.

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

- Improvements to the customer journey have begun at all palaces through initiatives developed in our Identity Project blueprints – getting the basics right, entrance on the outside, place to be, history where it happened and school of storytelling.
- New exhibitions and presentations: *Gunpowder Treason* at Tower of London, *Diana, Princess of Wales* at Kensington Palace, *Suffragettes, Soldiers and Servants* at Hampton Court Palace – all opened successfully.
- Major projects progressing well: Kew opened on time in spring 2006; Clore Learning Centre, project on schedule for January 2007 opening; Kensington Palace Heritage Lottery Fund bid in preparation.
- All DCMS KPI visitor targets exceeded, with improvements on last year (see detail on pages 7 and 8).

### 3. Have wider impact in the world

- New visual identity developed, implementation under way.
- *Tales from the Palaces* broadcast on BBC4 and BBC2.
- New micro website designed and launched.
- Historic Royal Palaces membership scheme designed and launched.

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

- Investors In People assessment found 'strong evidence' in all indicator areas.
- Staff survey action plans implemented.
- New performance framework designed: leadership development programme for every manager; Cause workshops for all staff.
- Skills development, recruitment, performance review being aligned with our Cause.
- New volunteer programme launched.
- Wide ranging Information Systems programmes and projects.

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

- Strong performance in functions and events throughout the year, another record at Banqueting House; EU Conference at Hampton Court Palace; Hampton Court Palace and Tower of London music festivals and ice rinks.
- Some real successes for fundraising, though capital campaign for Kew has been difficult.

**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' performance against the 2005/6 targets is reported below.

**Visitor satisfaction ratings**

Historic Royal Palaces has exceeded all the agreed targets.

	<b>2005/6 Target</b>	<b>2005/6 Actual</b>
Value for money	>0.70	1.12
Enjoyment	>1.25	1.50
Staff helpfulness	>1.25	1.61

**Key to visitors' ratings**

Extremely good	2.0
quite good	1.0
acceptable	0.0
quite poor	-1.0
very poor	-2.0

[degree of confidence +/- 0.15]

**Conservation**

**Target** - Invest at least £2 million in the planned building conservation of our palaces, including successful delivery of the following projects:

- Hampton Court Palace lead roofs, phase 1.
- Tower of London Byward Tower.
- Kew Palace external decorations.

**Achievements** - All main projects achieved.

Cuts following the July 2005 bombings reduced projects and disrupted the programme. Actual expenditure on planned building conservation £2 million. This forms a specifically defined part of the overall expenditure of £11.9 million under the heading *give the palaces the care they deserve*.

### **Access and learning**

**Target** - Customer satisfaction with education services at Hampton Court Palace achieve survey results of:

- Enjoyment - above 1.00
- Quality of service - above 1.00
- Quality of sessions - above 1.00

**Achievement** - This is a new target based on research carried out in 2004/5.

Enjoyment - 1.45 (1.34 in 2004/5)

Quality of Service - 1.21 (1.23 in 2004/5)

Quality of Sessions - 1.39 (1.55 in 2004/5)

The survey was sent to 374 school group leaders, 104 responded.

### **Financial liquidity**

#### **Target**

- Cash balance at end of year: achieving or bettering annual operating plan budget - £5.5 million
- Free reserves at end of year: achieving or bettering annual operating plan budget - £3.2 million

#### **Achievement**

- Cash balance at the end of the year is £10.6 million.
- Free reserves at the end of the year is £2.8 million due to the need to call on £1 million free reserves to manage the financial impact of the July 2005 terrorist attacks.

## **Financial Review**

The most significant financial event was the July bombings in London. Until then, overall visitor numbers were marginally above budget, but subsequently there was an overall drop against budget of 22%. The financial impact was both in direct visitor income and associated income streams such as retail and catering, and happened critically at the beginning of the summer season. Numbers remained below budget through to the year end, ending 14% down overall on budget and 13% less than the previous year. The total financial loss amounted to almost £5 million.

With total free reserves at less than £4 million, this was a big challenge for the charity to address. £1million was released from our reserves and the balance came from expenditure savings, project cuts and deferrals, and additional earned revenue.

Income earned from our functions and events business was once more a great success. With music festivals and ice rinks at both Hampton Court and the Tower of London, together with important one-off events such as the EU summit at Hampton Court, revenues increased by 39% over 2004/5, itself a record year.

Generous financial support from the Heritage Lottery Fund and the Clore Duffield Foundation enabled us to continue work on the

representation of Kew Palace and the Clore Learning Centre at Hampton Court. However, it proved a tough climate and difficult year for fundraising and despite some successes, notably for Kew Palace, there remain considerable shortfalls, particularly in our major project capital targets.

Within Historic Royal Palaces' general fund, free reserves fell to £2.8 million. A major review of the charity's strategic risks resulted in a reserves target of £5 million to be achieved over the new three year strategic plan.

The financial statements are presented in the new format required by the *Statement of Recommended Practice: Accounting and Reporting by Charities 2005*. We have taken the opportunity offered by this change to more clearly present our income and expenditure aligned to our new key strategic aims, especially under the headings *give the palaces the care they deserve* and *transform the way visitors explore their story*.

## 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 Historic Royal Palaces 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 Historic Royal Palaces' three-year strategic plan, and the impact of July 2005 events. 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 the Clore Learning Centre and our planned maintenance work.

Following this detailed review a target level for free reserves has been set at £5 million to be achieved by 2009, 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 held as fixed assets or designated for other purposes:

- Fixed asset fund

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. The part of the general fund represented by fixed assets is therefore excluded from free reserves, as generally a charity could not dispose of those assets and continue its operations as a going concern.

- Designated funds

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

- Pension plan

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. Following the March 2004 triennial actuarial valuation (next one due March 2007) the Trustees approved an increase in employers' contributions into the scheme to meet its ongoing liabilities. In addition, a ten year plan was approved to fund the deficit by separate fixed payments of £673,000 per annum. Historic Royal Palaces' strategic planning process allows for these payments to the scheme to be made from planned income each year, and therefore there is no requirement to ring fence an amount equal to the full deficit from other reserves to cover this liability. The FRS17 liability at March 2006 is £3.0 million (March 2005: £4.6 million).

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

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

**Equal opportunities policies**

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 organization using a range of different communication mechanisms. To facilitate information flows and discussion between the organization 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 2005/6 65% of supplier invoices were paid within 30 days of date of invoice (63% in 2004/5) and 75% within 40 days (77% in 2004/5).

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

**Structure, governance and management**

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. All non ex officio appointments by the Secretary of State are made in accordance with the Office of the Commissioner for Public Appointments. Trustees are appointed having regard to their experience and expertise and the contribution they can make to further our work.

Trustees are usually recruited through advertisement, by using existing contacts, by further research, and, exceptionally, through executive search. All of these methods were used in the recruitment process for the new Chairman.

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 both on their responsibilities as a Trustee of both a charity and a public body and about the organisation.

Trustees normally serve for three years and can be re-elected twice.

#### **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.

## **Report of the Remuneration Committee**

#### **Membership**

The membership of the Remuneration Committee comprises three Trustees. Lord Inge was Chairman of the Committee until 4 February 2006 when he retired from the committee; Sir Roger Wheeler was a member of the committee throughout the year and was appointed Chairman on 4 February 2006; Angela Heylin served on the committee throughout the year; John Hamer was appointed to the committee on 15 March 2006.

#### **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 Senior Executives and 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 when instructed by the Trust to apply their specialist skills or knowledge. Details are set out in Note 6.

**Review of activity during the year**

At the Annual Salary Review in August 2005 Directors received a 2% salary increase, which was broadly in line with the external market. Following a benchmarking review two Directors were also awarded an additional increase to bring their basic salaries in line with the appropriate internal and external markets. In addition, the Directors received a performance-related bonus for the 2004/5 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 in Director's individual performance against agreed objectives. Performance-related bonuses for the 2005/6 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.

Charles Mackay  
Chairman of the Board of Trustees  
26 June 2006

Hampton Court Palace  
Surrey  
KT8 9AU

## 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' Cause and strategy, 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.

### 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 Historic Royal Palaces' Cause and strategy; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised 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 2006 and up to the date of approval of the Annual Review 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.

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 Historic Royal Palaces are achieved in the most economic and effective manner.

#### **The Executive Board:**

- assesses risks and opportunities annually as part of the Annual Operating Plan process (looking forward);
- provides assurance to the CEO/Accounting Officer about the effectiveness of risk management in their annual letters of representation (looking back);
- as the Risk Committee, develops Historic Royal Palaces' 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 Historic Royal Palaces: 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 adequacy of Historic Royal Palaces' arrangements for risk management and internal control. During the year the following Trustees served on the committee: Alan Reid (Chairman), Bridget Cherry, Sir Roger Wheeler and Malcolm Reading.

Internal Audit is responsible for the ongoing examination of and the reporting on the adequacy and effectiveness of Historic Royal Palaces' 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**

Historic Royal Palaces' 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;
- 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 and initiatives that have been made during the year include:

- the Executive Board undertook a major review of risk management to align it with our new Cause and strategy;
- this resulted in a new risk register focusing on key strategic and corporate operational risks, and the Internal Audit plan has been updated following these changes;
- Historic Royal Palaces' strategic plan has been updated for the three years to March 2009. This also involved identifying key strategic risks and opportunities;
- following the London bombings in July 2005, a thorough review of Historic Royal Palaces' counter-terrorist measures was undertaken which confirmed existing measures to be satisfactory;
- a number of external security audits from relevant bodies such as the Security Service and the Museum Libraries and Archives Council took place and concluded Historic Royal Palaces was in good order;
- two desktop exercises were held to test the Historic Royal Palaces Major Incident Plan (MIP), and operational and specialist departmental MIP's have been prepared to support the Historic Royal Palaces MIP;
- very good progress has been made on improving business continuity and disaster recovery plans for our major Information Systems. Information Systems failure has been identified as one of Historic Royal Palaces' ten corporate operational risks in the new Risk Register;
- a fire safety audit was undertaken by a specialist consultant, who concluded that the palaces are protected to a very high standard;
- health screening for gardeners has been introduced;
- several new sections have been added to the HSE system and a new employee handbook has been prepared;
- three new modules on risk management, workplace inspection and accident investigation were developed;
- every palace/department received a detailed inspection by the Historic Royal Palaces' Security Adviser and no major problems were found.

## **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 AO confirms that so far as the AO is aware, there is no relevant audit information of which Historic Royal Palaces' auditors are unaware and the AO has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that Historic Royal Palaces' auditors are aware of that information. 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 2005/6.

Charles Mackay  
Chairman of the Board of Trustees  
26 June 2006

Michael Day  
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 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 required to follow the Accounts Direction and 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.

Charles Mackay  
Chairman of the Board of Trustees  
26 June 2006

### 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*. He is also required to follow the Accounts Direction.

Michael Day  
Chief Executive and Accounting Officer  
26 June 2006

## **Report of the Auditor to the Trustees of Historic Royal Palaces**

I have audited the financial statements of Historic Royal Palaces for the year ended 31 March 2006. These comprise the Statement of Financial Activities, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### **Respective responsibilities of the Board of Trustees, the Chief Executive and Auditor**

The Board of Trustees and the Chief Executive, as Accounting Officer, are responsible for preparing the Trustees' Report and the financial statements and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statements of Trustees' and the Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Charities Act 1993 and directions given by the Secretary of State for Culture, Media & Sport, with the approval of the Treasury. I also report whether in all material respects the expenditure and income have been applied to the purposes intended and the financial transactions conform to the authorities which govern them. I also report to you 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 14 to 17 reflects Historic Royal Palaces' compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Trustees' and Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of Historic Royal Palaces' corporate governance procedures or its risk and control procedures.

I read the other information contained in the Trustees' Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Board of Trustees and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most 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 fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended 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, in accordance with the Charities Act 1993 and directions given by the Secretary of State for Culture, Media & Sport, with the approval of the Treasury, of the state of Historic Royal Palaces' affairs and the Group as at 31 March 2006 and of the incoming resources and application of resources of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Charities Act 1993 and directions given by the Secretary of State for Culture, Media & Sport, with the approval of the Treasury;
- in all material respects the expenditure and income have been applied to the purposes intended and the financial transactions conform to the authorities which govern them.

Sir John Bourn  
Comptroller and Auditor General  
05 July 2006

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 2006

	Note	Unrestricted funds £000	Restricted funds £000	Total 2006 £000	Total 2005 (Restated) £000
<b>INCOMING RESOURCES</b>					
<b>Incoming resources from generated funds:</b>					
Voluntary income					
Grants and donations		95	2,477	<b>2,572</b>	1,524
<b>Activities for generating funds:</b>					
Retail income		7,632	-	<b>7,632</b>	8,103
Functions and events		4,739	-	<b>4,739</b>	3,401
Licences and rents		2,012	-	<b>2,012</b>	1,950
Sponsorship		166	-	<b>166</b>	55
		<b>14,549</b>	-	<b>14,549</b>	<b>13,509</b>
Investment income		628	21	<b>649</b>	604
<b>Incoming resources from charitable activities:</b>					
Admissions		27,384	-	<b>27,384</b>	29,358
Concessions		1,005	-	<b>1,005</b>	1,060
<b>Total incoming resources</b>		<b>43,661</b>	<b>2,498</b>	<b>46,159</b>	<b>46,055</b>
<b>RESOURCES EXPENDED</b>					
<b>Costs of generating funds:</b>					
Fundraising		545	-	<b>545</b>	330
Retail activities		6,732	-	<b>6,732</b>	6,942
Other commercial activities		1,794	-	<b>1,794</b>	1,705
		<b>9,071</b>	-	<b>9,071</b>	<b>8,977</b>
<b>Charitable activities:</b>					
<i>Give the palaces the care they deserve</i>		10,936	958	<b>11,894</b>	13,912
<i>Transform the way visitors explore their story:</i>					
Public access		14,348	787	<b>15,135</b>	14,576
Interpretation and learning		5,257	1,780	<b>7,037</b>	5,545
<i>Have a wider impact in the world</i>		3,158	-	<b>3,158</b>	3,241
Governance costs	4	432	-	<b>432</b>	396
		<b>34,131</b>	<b>3,525</b>	<b>37,656</b>	<b>37,670</b>
Pension finance costs	8	66	-	<b>66</b>	152
<b>Total resources expended</b>	<b>3</b>	<b>43,268</b>	<b>3,525</b>	<b>46,793</b>	<b>46,799</b>
Net incoming/(outgoing) resources before transfers		393	(1,027)	<b>(634)</b>	(744)
Actuarial gain on pension plan	8	707	-	<b>707</b>	903
<b>Net movement in funds</b>		<b>1,100</b>	<b>(1,027)</b>	<b>73</b>	<b>159</b>
Fund balances brought forward at 1 April 2005		14,559	1,309	<b>15,868</b>	15,394
Prior year adjustment	9	(796)	-	<b>(796)</b>	(481)
At 1 April 2005 as restated		13,763	1,309	<b>15,072</b>	14,913
<b>Fund balances carried forward at 31 March 2006</b>		<b>14,863</b>	<b>282</b>	<b>15,145</b>	<b>15,072</b>

The amounts shown above derive from continuing activities. There were no recognised gains or losses other than those disclosed above. The notes on pages 24 to 39 form an integral part of these accounts.

## Consolidated and Trust Balance Sheets as at 31 March 2006

	Note	Group 2006 £000	Trust 2006 £000	Group 2005 (Restated) £000	Trust 2005 (Restated) £000
<i>Fixed assets:</i>					
Intangible assets	10	106	106	142	142
Tangible assets	11	8,921	8,921	9,115	9,115
Heritage assets	12	3,011	3,011	2,935	2,935
		<b>12,038</b>	<b>12,038</b>	<b>12,192</b>	<b>12,192</b>
<i>Current assets:</i>					
Stocks – goods for resale		990	-	993	-
Debtors	13	3,991	4,058	2,504	2,887
Short-term cash deposits		4,702	4,702	6,617	6,617
Cash at bank and in-hand		5,935	5,482	5,375	4,714
		<b>15,618</b>	<b>14,242</b>	<b>15,489</b>	<b>14,218</b>
<i>Creditors:</i>					
Amounts falling due within one year	14	9,406	8,030	7,412	6,141
<b>Net current assets</b>		<b>6,212</b>	<b>6,212</b>	<b>8,077</b>	<b>8,077</b>
<b>Total assets less current liabilities</b>		<b>18,250</b>	<b>18,250</b>	<b>20,269</b>	<b>20,269</b>
<i>Provision for liabilities and charges</i>	15	80	80	556	556
<b>Net assets excluding Pension Plan liability</b>		<b>18,170</b>	18,170	19,713	19,713
<i>Pension Plan liability</i>	8	3,025	3,025	4,641	4,641
<b>Net assets including Pension Plan liability</b>		<b>15,145</b>	<b>15,145</b>	<b>15,072</b>	<b>15,072</b>
Unrestricted funds		14,863	14,863	13,763	13,763
Restricted funds		282	282	1,309	1,309
<b>Total funds</b>	5	<b>15,145</b>	<b>15,145</b>	<b>15,072</b>	<b>15,072</b>

These financial statements were approved by the Trustees and the Accounting Officer on 26 June 2006 and were signed on their behalf by:

Charles Mackay  
Chairman of the Board of Trustees

Michael Day  
Chief Executive and  
Accounting Officer

The notes on pages 24 to 39 form an integral part of these accounts.

## Consolidated Cash Flow Statement for the year ended 31 March 2006

Cash flow statement	2006 £000	2005 (Restated) £000
Net cash outflow from operating activities	(703)	(130)
Returns on investment and servicing of finance:		
Interest received	652	604
Taxation paid	(1)	(3)
Investing activities:		
Purchase of tangible assets	(1,224)	(858)
Purchase of intangible assets	(3)	(57)
Purchase of heritage assets	(76)	(190)
Management of liquid resources:*		
Net sale of short-term deposits	1,915	1,543
<b>Increase in cash</b>	<b>560</b>	<b>909</b>

Reconciliation of net incoming resources to net cash inflow from operating activities	2006 £000	2005 (Restated) £000
Net outgoing resources from charitable and trading activities	(634)	(828)
Prior year adjustment	-	84
Interest receivable	(649)	(604)
Taxation	1	3
Pension scheme: non-cash movements	(236)	(621)
Depreciation	1,425	1,541
Loss on disposal of fixed assets	33	62
Decrease in stocks	3	192
Increase in debtors	(1,487)	(110)
Increase/(decrease) in creditors: current liabilities	1,990	(108)
(Decrease)/increase in provisions for liabilities and charges	(476)	259
Decrease in pension plan liability	(673)	-
<b>Net cash outflow from operating activities</b>	<b>(703)</b>	<b>(130)</b>

Analysis of net funds	2006 £000	2005 £000	Change in year £000
Cash at bank and in hand	5,935	5,375	560

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

# Notes to the Consolidated Accounts for the year ended 31 March 2006

## 1. Accounting policies

The following accounting policies have been applied consistently, with the exception of revaluing fixed assets, 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 financial statements have been prepared in accordance with the *Statement of Recommended Practice (SORP): Accounting and Reporting by Charities* published in March 2005, and applicable accounting standards. The financial statements have been prepared under the historic cost convention and meet the requirements of the Companies Act 1985. They have been prepared in accordance with the Accounts Direction, a copy of which can be obtained from the Trust and Company Secretary. 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 397 of the SORP. Certain prior-year figures have been restated due to the adoption of SORP 2005.

During the year, the Group's status was changed from a Non-Departmental Public Body to a Public Corporation. As a consequence of this, the Group is no longer required to follow the guidance contained in the Financial Reporting Manual issued by HM Treasury. A key change resulting from this is the removal of the requirement to revalue fixed assets on the basis of indices provided by the Office of National Statistics. As the Group was of the opinion that these revaluations did not provide useful information to the users of its financial statements, a non-revaluation policy has been adopted from 1 April 2005, as permitted by FRS15. A prior year adjustment has been made to reverse the balance on the Revaluation Reserve and return fixed assets to their historical costs.

### 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.

1. ACCOUNTING POLICIES CONTINUED

**d) Funds**

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

- Unrestricted fund - the unrestricted fund includes income from admissions, donations and other income received without restriction including retained profits of HRPE. Unrestricted funds are available for use at the discretion of the Trustees in furtherance of the general objectives of the charity. Trustees may earmark unrestricted funds for a particular project or use, without restricting or committing the funds legally. Such amounts are known as designated funds.
- Restricted funds - restricted funds include those receipts which are subject to specific restrictions imposed by donors, including grants towards specific conservation and improvement projects undertaken at the palaces.

**e) Incoming resources**

All incoming resources are included in the SOFA when the Group is legally entitled to the income and the amount can be quantified with reasonable accuracy. The following specific policies apply to categories of income:

- Grants - where related to performance and specific deliverables are accounted for as the Group earns the right to consideration by its performance. Where income is received in advance of performance its recognition is deferred and included in creditors. Where entitlement occurs before income is received the income is accrued.
- Gifts in kind - where donated to the Group are included as income at market value at the time of receipt.

**f) Resources expended**

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

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

**g) Intangible fixed assets**

From 1 April 2003 bought-in software licences costing more than £2,000 are capitalised and included at cost within intangible assets. Software purchased prior to 1 April 2003 is capitalised within tangible fixed assets. Depreciation is provided to write off the cost of bought-in software (assuming no residual value) by equal instalments over five years.

1. ACCOUNTING POLICIES CONTINUED

**h) Tangible fixed assets**

Tangible fixed assets costing more than £2,000 are capitalised and included at cost. Assets are capitalised at a value net of VAT as, in accordance with SSAP 5, it is not practicable to include. All expenditure on repairing and maintaining the original fabric of the buildings and on non-revenue generating improvements is written off in the year incurred. All improvements to the fabric of the buildings, with the aim of raising or increasing revenue, are capitalised. New buildings constructed by the 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 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 (purchases up to 31 March 2003)	5 years
Computer hardware	3 years

**i) Heritage Assets**

SORP 2005 has defined a new category of assets: Heritage Assets. These are defined as assets of historical and artistic importance that are held to advance preservation, conservation and the educational objectives of the Trust. These assets were previously called Artefacts and their value is included separately in the Balance Sheet. Those items that were purchased by or gifted to the Trust's predecessors prior to September 1989 have not been capitalised as reliable cost information is not available, as permitted by the SORP. Such assets are not depreciated as their residual value is considered to be higher than the carrying value. Regular impairment reviews of heritage assets are undertaken.

**j) Investment in subsidiary**

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

**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 first-in, first-out basis and includes all costs of purchase such as associated transportation charges.

**l) 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.

### m) 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.

### n) 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.

## 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.

	<b>2006</b>	2005
	<b>£000</b>	£000
Profit and loss account		
Turnover	<b>13,576</b>	12,546
Cost of sales	<b>(3,075)</b>	(3,353)
Gross profit	<b>10,501</b>	9,193
Administrative expenses	<b>(7,055)</b>	(6,736)
Interest receivable	<b>20</b>	30
Net profit	<b>3,466</b>	2,487
Amount passed as Gift Aid to HRP	<b>(3,465)</b>	(2,484)
Taxation	<b>(1)</b>	(3)
Retained in subsidiary	-	-
	<b>2006</b>	2005
	<b>£000</b>	£000
Balance Sheet as at 31 March 2006		
Stocks - goods for resale	<b>990</b>	993
Debtors	<b>647</b>	582
Cash	<b>453</b>	661
Current liabilities	<b>(2,090)</b>	(2,236)
Net assets	-	-
Share capital and reserves	-	-

### 3. Total resources expended

	Total direct costs	Allocation of support costs	Total 2006	Total 2005 (Restated)
	£000	£000	£000	£000
<b>Costs of generating funds</b>				
<b>Generating the money to make it possible</b>				
Fundraising	495	50	<b>545</b>	330
Retail activities	6,023	709	<b>6,732</b>	6,942
Other commercial activities	1,656	138	<b>1,794</b>	1,705
	<b>8,174</b>	<b>897</b>	<b>9,071</b>	<b>8,977</b>
<b>Charitable expenditure</b>				
<i>Give the palaces the care they deserve</i>	10,822	1,072	<b>11,894</b>	13,912
<i>Transform the way visitors explore their story:</i>				
Public access	13,273	1,862	<b>15,135</b>	14,576
Interpretation and learning	6,443	594	<b>7,037</b>	5,545
<i>Have a wider impact in the world</i>	2,951	207	<b>3,158</b>	3,241
	<b>33,489</b>	<b>3,735</b>	<b>37,224</b>	<b>37,274</b>
Governance costs (see Note 4)	397	35	<b>432</b>	396
	<b>42,060</b>	<b>4,667</b>	<b>46,727</b>	<b>46,647</b>
Pension finance costs	66	-	<b>66</b>	152
<b>Total</b>	<b>42,126</b>	<b>4,667</b>	<b>46,793</b>	<b>46,799</b>

	Total 2006	Total 2005 (Restated)
	£000	£000
Resources expended include charges for:		
Auditors' remuneration:		
Audit - HRP	<b>22</b>	21
- HRPE	<b>16</b>	14
Hire of equipment:		
Computers	<b>114</b>	134
Plant and machinery	<b>157</b>	153
Other	<b>284</b>	170
Depreciation written off owned fixed assets:		
Tangible	<b>1,386</b>	1,504
Intangible	<b>39</b>	37
Corporation tax	<b>1</b>	3

## 4. Support and governance costs

Costs for developing an organisation 'Living the Cause', broken down by activity:

	Human Resources £000	Information Systems £000	Finance Dept. £000	Employee Services £000	Management Costs £000	<b>Total 2006 £000</b>	Total 2005 £000
<b>Costs of generating funds</b>							
Fundraising	9	11	13	6	11	<b>50</b>	27
Retail activities	131	151	221	49	157	<b>709</b>	699
Other commercial activities	19	22	59	14	24	<b>138</b>	120
<b>Charitable expenditure</b>							
<i>Give the palaces the care they deserve</i>	184	212	366	90	220	<b>1,072</b>	1,110
<i>Transform the way visitors explore their story:</i>							
Public access	409	473	319	170	491	<b>1,862</b>	1,755
Interpretation and learning	98	113	209	57	117	<b>594</b>	487
<i>Have a wider impact in the world</i>	22	25	118	16	26	<b>207</b>	212
Governance costs	7	8	5	7	8	<b>35</b>	28
<b>Total</b>	<b>879</b>	<b>1,015</b>	<b>1,310</b>	<b>409</b>	<b>1,054</b>	<b>4,667</b>	<b>4,438</b>

The bases of apportionment in the above table are:

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

### Governance costs

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

	£000
Internal and external audit	240
Trustee meeting expenses	3
Production of annual report	7
Management costs	147
Support costs	35
	<b>432</b>

## 5. Total funds

	Funds as at 1 April 2005 as originally stated £000	Prior year adjustment £000	Funds as at 1 April 2005 as restated £000	Incoming resources £000	Resources expended £000	Revaluations £000	Transfers between funds £000	Funds as at 31 March 2006 £000
<b>Unrestricted funds</b>								
General (Free) reserves	3,659	-	3,659	43,661	(44,177)	-	(373)	2,770
Designated funds	2,553	-	2,553	-	-	-	527	3,080
Fixed assets	12,192	-	12,192	-	-	-	(154)	12,038
Revaluation	796	(796)	-	-	-	-	-	-
Pension plan	(4,641)	-	(4,641)	-	909	707	-	(3,025)
<b>Total</b>	<b>14,559</b>	<b>(796)</b>	<b>13,763</b>	<b>43,661</b>	<b>(43,268)</b>	<b>707</b>	<b>-</b>	<b>14,863</b>
<b>Restricted funds</b>								
Kew Palace project	996	-	996	1,614	(2,610)	-	-	-
Clore Learning Centre	193	-	193	700	(807)	-	-	86
Other	120	-	120	184	(108)	-	-	196
<b>Total</b>	<b>1,309</b>	<b>-</b>	<b>1,309</b>	<b>2,498</b>	<b>(3,525)</b>	<b>-</b>	<b>-</b>	<b>282</b>
<b>Total funds</b>	<b>15,868</b>	<b>(796)</b>	<b>15,072</b>	<b>46,159</b>	<b>(46,793)</b>	<b>707</b>	<b>-</b>	<b>15,145</b>

### 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 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. The palace opened on time in spring 2006.

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.

	2006 £000	2005 £000
Restricted income received during the year was from the following sources:		
Heritage Lottery Fund	1,141	852
The Wolfson Foundation	75	-
European Commission Research Directorate General	18	46
Sir John Cass's Foundation	27	-
Other grant income	29	20
<b>Total grant income</b>	<b>1,290</b>	<b>918</b>
The Clore Duffield Foundation	700	300
The Hobson Charity	150	-
Neil and Julie Record	100	-
The Gosling Foundation	50	-
The Eranda Foundation	40	-
Private benefactors - Kew Palace project	37	153
The John Ellerman Foundation	30	-
Bruce and Jane Carnegie-Brown	25	-
Other donations	55	63
<b>Total donations</b>	<b>1,187</b>	<b>516</b>
Other restricted income	21	53
<b>Total restricted income</b>	<b>2,498</b>	<b>1,487</b>

## 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 £253 (2005: £566) for the year ending 31 March 2006. Expenses were reimbursed for two (2005: four) 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) employed during the year was as follows:

	2006 Total no. of staff	2005 Total no. of staff (Restated)
Fundraising	6	4
Retail activities	89	84
Other commercial activities	13	9
<i>Give the palaces the care they deserve</i>	124	122
<i>Transform the way visitors explore their story:</i>		
Public access	277	279
Interpretation and learning	66	63
<i>Have a wider impact in the world</i>	15	16
Governance	5	5
Support costs	50	46
<b>Total</b>	<b>645</b>	<b>628</b>

The numbers of staff for 2005 have been restated to exclude agency staff.

The aggregate payroll costs of these staff were as follows:

	2006 £000	2005 £000
Wages and salaries	15,960	15,130
Loss of office	167	707
Social security costs	1,388	1,329
Pension costs	2,142	2,178
<b>Total</b>	<b>19,657</b>	<b>19,344</b>
Agency staff	370	505
<b>Total</b>	<b>20,027</b>	<b>19,849</b>

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

	2006 No. of staff	2005 No. of staff
£60,001 to £70,000	2	-
£70,001 to £80,000	1	2
£80,001 to £90,000	-	1
£90,001 to £100,000	2	2
£100,001 to £110,000	2	3
£110,001 to £120,000	2	-

There were nine staff during the year earning in excess of £60,000 (2005: eight), six were in a defined benefit scheme (2005: five) and three were in a defined contribution scheme (2005: two) where the employer contributions were £19,567 (2005: £11,259).

The aggregate emoluments of the Chief Executive were as follows:

	Age	Remuneration	Pension Contributions made to Group Personal Pension Plan
Michael Day	53	£133,341	£9,504

The emoluments of the Chief Executive in 2004/5 totalled £122,330 (excluding pension benefits).

## 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 2006 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary were:

	At 31 March 2006	At 31 March 2005
Rate of increase in salaries	3.9%	3.9%
Rate of increase in pensions in payment where LPI* applies	3.0%	2.8%
Discount rate	5.0%	5.4%
Inflation assumption	3.0%	2.8%
Loading for mortality improvements	5.25%	5.25%
Pre and post-retirement mortality table	PA†92 c2020	PA92 c2015

\*(LPI - Limited Price Indexation)

†(PA - Pension Annuitant Tables)

The assets in the scheme and the expected return were:

	Long-term rate of return expected at 31 March 2006	Value at 31 March 2006	Long-term rate of return expected at 31 March 2005	Value at 31 March 2005
		£000		£000
Equities	6.2%	21,012	6.6%	15,045
Bonds	4.2%	5,522	4.6%	3,575
Other (property, cash, etc)	4.2%	385	4.6%	496
Total market value of assets		26,919		19,116
<b>Present value of scheme liabilities</b>		<b>(29,944)</b>		<b>(23,757)</b>
<b>Net pension liability</b>		<b>(3,025)</b>		<b>(4,641)</b>

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

**Analysis of the amount charged to resources expended in the SOFA**

	<b>2006</b>	2005
	<b>£000</b>	£000
Current service cost	<b>1,922</b>	1,915

**Analysis of the finance costs charged to resources expended in the SOFA**

	<b>2006</b>	2005
	<b>£000</b>	£000
Expected return on pension scheme assets	<b>1,259</b>	1,042
Interest on pension scheme liabilities	<b>(1,325)</b>	(1,194)
<b>Net return</b>	<b>(66)</b>	<b>(152)</b>

**Analysis of amount recognised in funds movement**

	<b>2006</b>	2005
	<b>£000</b>	£000
Actual return less expected return on pension scheme assets	<b>4,007</b>	984
Experience gain arising on the scheme liabilities	<b>119</b>	806
Changes in assumptions underlying the present value of the scheme liabilities	<b>(3,419)</b>	(887)
<b>Actuarial gain</b>	<b>707</b>	<b>903</b>

**Movement in funds during the year**

	<b>2006</b>	2005
	<b>£000</b>	£000
Deficit in scheme at beginning of the year	<b>(4,641)</b>	(6,165)
Movement in year:		
Current service cost	<b>(1,922)</b>	(1,915)
Contributions	<b>2,897</b>	2,688
Other finance costs	<b>(66)</b>	(152)
Actuarial gain	<b>707</b>	903
<b>Deficit in scheme at end of the year</b>	<b>(3,025)</b>	<b>(4,641)</b>

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

Following the 2004 actuarial valuation the Employer agreed a contribution rate of 22.7% (including 1.5% payable by members). The Employer also pays a 1.2% contribution representing the cost of the Scheme's general administration and the insurance cost of the death in service benefits. From April 2005 the Employer has been making an additional payment of £673,200 per annum which is anticipated to continue for ten years to fund past service deficit and its notional related growth.

All the contributions have been set and agreed with the Scheme's Actuary.

### History of experience gains and losses

	2006 £000	2005 £000	2004 £000	2003 £000
<b>Difference between the expected and actual return on scheme assets:</b>				
Amount	4,007	984	2,056	(3,462)
Percentage of scheme assets	15%	5%	14%	(36%)
<b>Experience gain on scheme liabilities:</b>				
Amount	119	806	41	104
Percentage of the present value of the scheme liabilities	0%	3%	0%	1%
<b>Changes in assumptions underlying the present value of the scheme liabilities:</b>				
Amount	(3,419)	(887)	(876)	(924)
Percentage of the present value of the scheme liabilities	(11%)	(4%)	(4%)	(5%)
<b>Total actuarial gain/(loss):</b>				
Amount	707	903	1,221	(4,282)
Percentage of the present value of the scheme liabilities	2%	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 £251,303 (2005: £161,777), with £23,712 outstanding contributions at the balance sheet date (2005: £17,264).

## 9. Prior year adjustment

During the year the Group's status was changed from a Non-Departmental Public Body to a Public Corporation. As the Group is no longer required to follow the guidance contained in the Financial Reporting Manual issued by HM Treasury, this has removed the requirement to revalue fixed assets on the basis of indices provided by the Office of National Statistics. The Group is of the opinion that such revaluations did not provide useful information to readers of its financial statements. A non-revaluation policy has therefore been adopted from 1 April 2005.

	Surplus for the year ended 31 March 2005 £000	Funds brought forward 1 April 2004 £000	Total prior year adjustment £000
As previously stated	474	15,394	15,868
<b>Change in accounting policy</b>			
Removal of modified historic cost accounting:			
Effect of change on cost of tangible fixed assets (see Note 11)	(562)	(934)	(1,496)
Effect of change on cost of intangible fixed assets (see Note 10)	3	-	3
Effect of change on accumulated depreciation of tangible fixed assets (see Note 11)	244	453	697
Effect of change on accumulated depreciation on intangible fixed assets (see Note 10)	-	-	-
<b>Prior year adjustment</b>	<b>(315)</b>	<b>(481)</b>	<b>(796)</b>
<b>As restated</b>	<b>159</b>	<b>14,913</b>	<b>15,072</b>

## 10. Intangible fixed assets

	Software licences
	£000
<b>Cost</b>	
<b>Balance as at 1 April 2005</b>	<b>189</b>
Prior year adjustment	3
Revised balance as at 1 April 2005	192
Additions	3
Disposals	-
<b>Balance as at 31 March 2006</b>	<b>195</b>
<b>Accumulated depreciation</b>	
<b>Balance as at 1 April 2005</b>	<b>50</b>
Prior year adjustment	-
Revised balance as at 1 April 2005	50
Charge for the year	39
Disposals	-
<b>Balance as at 31 March 2006</b>	<b>89</b>
<b>Net book value as at 31 March 2006</b>	<b>106</b>
As at 1 April 2005 originally stated	139
Prior year adjustment	3
As at 1 April 2005 restated	142
<b>The net book value as at 31 March 2006 represents fixed assets used for:</b>	
	£000
<b>Costs of generating funds</b>	
Fundraising	1
Retail activities	11
Other commercial activities	2
	<b>14</b>
<b>Charitable expenditure</b>	
<i>Give the palaces the care they deserve</i>	17
<i>Transform the way visitors explore their story:</i>	
Public access	64
Interpretation and learning	7
<i>Have a wider impact in the world</i>	2
Governance costs	2
	<b>106</b>

## 11. Tangible fixed assets

	Buildings & refurbishments	Fixtures & fittings	Furniture, equipment & exhibitions	Computers	Plant, machinery & vehicles	Assets in course of construction	Total
	£000	£000	£000	£000	£000	£000	£000
<b>COST</b>							
<b>Balance as at 1 April 2005</b>	<b>9,560</b>	<b>3,495</b>	<b>2,906</b>	<b>493</b>	<b>3,662</b>	<b>118</b>	<b>20,234</b>
Prior year adjustment	(1,175)	(22)	(34)	61	(326)	-	(1,496)
Revised balance as at 1 April 2005	8,385	3,473	2,872	554	3,336	118	18,738
Additions	-	37	124	83	51	1,024	1,319
Disposals	(5)	(174)	(317)	(103)	(11)	(13)	(623)
Transfers	-	-	81	-	-	(81)	-
<b>Balance as at 31 March 2006</b>	<b>8,380</b>	<b>3,336</b>	<b>2,760</b>	<b>534</b>	<b>3,376</b>	<b>1,048</b>	<b>19,434</b>
<b>Accumulated depreciation</b>							
<b>Balance as at 1 April 2005</b>	<b>3,308</b>	<b>2,559</b>	<b>2,237</b>	<b>379</b>	<b>1,837</b>	<b>-</b>	<b>10,320</b>
Prior year adjustment	(451)	(30)	(46)	69	(239)	-	(697)
Revised balance as at 1 April 2005	2,857	2,529	2,191	448	1,598	-	9,623
Charge for the year	743	191	148	68	236	-	1,386
Disposals	(5)	(145)	(234)	(103)	(9)	-	(496)
<b>Balance as at 31 March 2006</b>	<b>3,595</b>	<b>2,575</b>	<b>2,105</b>	<b>413</b>	<b>1,825</b>	<b>-</b>	<b>10,513</b>
<b>Net book value as at 31 March 2006</b>	<b>4,785</b>	<b>761</b>	<b>655</b>	<b>121</b>	<b>1,551</b>	<b>1,048</b>	<b>8,921</b>
As at 1 April 2005 originally stated	6,252	936	669	114	1,825	118	9,914
Prior year adjustment	(724)	8	12	(8)	(87)	-	(799)
<b>As at 1 April 2005 restated</b>	<b>5,528</b>	<b>944</b>	<b>681</b>	<b>106</b>	<b>1,738</b>	<b>118</b>	<b>9,115</b>

The net book value as at 31 March 2006 represents fixed assets used for:

### Costs of generating funds:

Fundraising	-	-	21	1	-	-	22
Retail activities	1,030	572	55	22	327	53	2,059
Other commercial activities	2,454	28	26	2	-	5	2,515

### Charitable expenditure:

<i>Give the palaces the care they deserve</i>	-	72	35	32	209	853	1,201
<i>Transform the way visitors explore their story:</i>							
Public access	1,301	89	419	52	996	9	2,866
Interpretation and learning	-	-	89	9	-	128	226
<i>Have a wider impact in the world</i>	-	-	10	2	19	-	31
Governance costs	-	-	-	1	-	-	1
	<b>4,785</b>	<b>761</b>	<b>655</b>	<b>121</b>	<b>1,551</b>	<b>1,048</b>	<b>8,921</b>

## 12. Heritage assets

	Total £000
<b>Cost and net book value</b>	
<b>Balance as at 1 April 2005</b>	<b>2,935</b>
Additions	76
Disposals	-
<b>Balance as at 31 March 2006</b>	<b>3,011</b>
<b>The net book value as at 31 March 2006 represents heritage assets used for:</b>	
<b>Charitable expenditure</b>	
<i>Transform the way visitors explore their story:</i>	
Interpretation and learning	3,011

## 13. Debtors

	Group 2006 £000	Trust 2006 £000	Group 2005 £000	Trust 2005 £000
Trade debtors	1,028	645	1,186	675
Amounts due from subsidiary	-	714	-	965
Other debtors	584	582	280	278
Prepayments and accrued income	2,379	2,117	1,038	969
	<b>3,991</b>	<b>4,058</b>	<b>2,504</b>	<b>2,887</b>

Within debtors nil is due after more than one year (2005: £21,847).

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

	Group 2006 £000	Trust 2006 £000	Group 2005 £000	Trust 2005 £000
Trade creditors	1,426	1,285	744	644
Taxation and social security	719	459	660	418
Other creditors	558	440	671	541
Accruals	5,491	5,231	4,358	4,187
Deferred income	1,212	615	979	351
	<b>9,406</b>	<b>8,030</b>	<b>7,412</b>	<b>6,141</b>

Within creditors nil is due after more than one year (2005: £106,846).

## 15. Provision for liabilities and charges

	Claims £000	Early retirement scheme £000	Contracts £000	Total £000
Balance as at 1 April 2005	-	8	548	556
New provisions in year	80	-	-	80
Amounts charged in the year	-	(8)	(548)	(556)
<b>Balance as at 31 March 2006</b>	<b>80</b>	<b>-</b>	<b>-</b>	<b>80</b>

All provisions are payable within one year.  
Claim provisions include amounts that will probably be due following public liability claims.

## 16. Financial commitments under operating leases

	Group 2006 £000	Trust 2006 £000	Group 2005 £000	Trust 2005 £000
<b>Operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:</b>				
Land and buildings:				
More than five years	209	169	209	169
Others:				
Within one year	11	-	47	37
Between two to five years	295	289	92	86
<b>Total payable within one year</b>	<b>515</b>	<b>458</b>	<b>348</b>	<b>292</b>

## 17. Capital commitments

	Group 2006 £000	Trust 2006 £000	Group 2005 £000	Trust 2005 £000
<b>Contracted capital commitments as at 31 March 2006, for which no provision has been made in the accounts:</b>				
Contracted	<b>1,970</b>	1,970	1,765	1,765
Authorised	<b>2,795</b>	2,795	7,568	7,568
	<b>4,765</b>	<b>4,765</b>	<b>9,333</b>	<b>9,333</b>

Commitments include £1,021,000 (2005: £2,197,000) 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 £7.795 million on 1 April 1998 (indexed for inflation and as revised for material changes in accounting policy) or the value of the equivalent assets held at the date of termination of the contract.

## 19. Financial key performance indicators

Financial key performance indicators for the Trust are stated on page 8.

## 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 Trust.

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

Related party	Connected party	2006 £000	2005 £000	Detail of transaction
HRH The Prince of Wales is President of the Prince's Trust	HM The Queen	9 (nil)	nil (nil)	Charges made by HRPE to The Prince's Trust for a function held at Kensington Palace.
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.	13 (nil)	nil (nil)	Charges made by HRPE to RCT for cleaning and conservation of tapestries and historic garments.
		nil (nil)	10 (10)	Charges made by HRP to RCT for tapestry conservation.
		23 (3)	5 (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.
		16 (16)	13 (9)	Recovery by RCT from HRP of a proportion of the costs of maintaining Royal Collection items displayed in the palaces.
Royal Armouries (RA)	General Sir Roger Wheeler (Trustee of HRP) is a Trustee of RA.	115 (25)	117 (75)	Payment by HRP to RA for goods and services provided at HM Tower of London.
		7 (nil)	41 (26)	Recovery of costs from RA for maintenance, goods and services provided by HRP at HM Tower of London.
		24 (nil)	19 (nil)	Purchases by HRPE of goods for resale.

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.