



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 2008

# Trustees' Report

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## *Trustees*

Charles Mackay (*Chairman*)  
Sir Alan Reid KCVO (*Deputy Chairman*)  
Dawn Austwick OBE  
Bridget Cherry OBE FSA  
Sue Farr  
John Hamer  
Sir Trevor McDonald OBE  
Sir Adrian Montague CBE (since 1 July 2007)  
Malcolm Reading  
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 Keith Cima CB  
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  
151 Buckingham Palace Road  
London SW1W 9SS

## *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

## Trustees' Report (continued)

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Historic Royal Palaces (HRP) was established in 1998 as a Royal Charter Body with charitable status and is contracted by the Secretary of State for the Department of Culture, Media and Sport (DCMS) to manage the palaces on his 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.

HRP 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.

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

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

### Our Cause

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

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

#### **Guardianship**

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

#### **Discovery**

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

#### **Showmanship**

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

#### **Independence**

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

## Trustees' Report (continued)

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

**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 stories and traditions associated with these famous sites. We are also responsible for developing the specialist skills of our staff. The idea of 'Guardianship' for us means to *care for, look after and keep secure*, and also to *nurture, develop and reach potential*. Conserving in the state we have inherited them is not enough, we aim to hand them on to future generations in a better state. The scale of the future challenge is set out in the *State of the Estate* and the *State of the Interiors* reports, and the Gardens Conservation Management Plans. The top ten conservation projects in each of these areas have been built into our forward plans over the next decade.

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

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

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

Our priority is to use the investment we have made in our Cause and Identity across all our communication and public-facing activities to build awareness, support and influence for HRP as widely as possible.

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

We continue to drive culture change and performance improvement in line with our Cause and performance framework: Putting the customer first; Knowing our stuff; Doing it well, and Working together.

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

Financial sustainability for HRP depends on the success of some key income streams to fund the objectives as defined by our Charter and Cause. This is supported by a reserves policy that aims to keep free reserves at a modest level so as to allow the maximum resource spend for our key charitable objectives. Our main income streams are from visitors, retail, fundraising, functions and events, and catering.

# Trustees' Report (continued)

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## Achievements and Performance

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

- Major conservation projects have proceeded this year in buildings, estates and landscapes, interiors and contents.
- At Hampton Court in August we brought down Hampton Court's famous Tudor astronomical clock for conservation, during work to restore brickwork on Queen Anne Boleyn's Gateway. The Cumbria Clock Company brought the dials and gearing safely to the ground where they were put on temporary display under cover in Clock Court. Visitors were delighted to gain such an intimate view of a glorious object, and our conservators were able to examine the condition of the metal and paintwork (flaking but still vibrant in many places) before the clock was reinstated in April 2008.
- Also at Hampton Court we continued with important research into environmental risk from vibration from visitor footfall and our music festival.
- Key conservation projects at the Tower of London included work on the Beauchamp, Constable and Bloody Towers, and the re-cobbling of Tower Green, where the shallow excavations revealed extensive remains of a substantial building, thought to date from 1570 and possibly used by the Yeoman Body.
- Conservators at the Tower undertook the cleaning and redisplay of the Imperial Mantle (made in 1821 for the coronation of George IV) and the Supertunica, first used in the coronation of George V in 1911.
- The project to restore the Lower Orangery Garden at Hampton Court was completed to acclaim in July, enabling summer visitors to admire the ordered rows of exotic plants and orange trees, many in replicas of the blue and white Delft pots so beloved of Queen Mary II. Meanwhile, the Gardens and Estate team began work on the re-presentation of the gardens at Kensington Palace, to complement the planned future re-presentation of the interiors.
- As part of our new sustainability strategy, we now use improved heating controls and low energy lighting in many areas of the palaces. The campaign to encourage all staff to think carefully has led to the re-cycling of up to 60 per cent of our total waste.
- We are proud to say that sustainability extends to our buildings. The Clore Learning Centre was awarded a prize in the Sustainable Building Services Awards and was also recently runner up Low Carbon Client of the year from the Chartered Institute of Building Services Engineers. And Kew Palace picked up one of the 'Oscars' for the built and natural environment, RICS (Royal Institute of Chartered Surveyors) Building Conservation Award 2007, from a field of 68 entries.
- Total spend of £13.5m in the SOFA represents an increase of 12% over the previous year.

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

- Learning is at the heart of everything we do. Within a year of opening, the Clore Learning Centre has already made a huge difference to our education provision at Hampton Court. We now have five fantastic learning spaces, each with a style of its own, offering facilities for everything from formal lectures and seminars to practical art workshops. We were able to cater for over 67,000 education visitors in 2007, an increase of 27% on the previous year.
- At the Tower, we took over full responsibility for the Education service, previously a shared undertaking with the Royal Armouries. While these are still early days, we have introduced some significant developments to improve the quality of the service, including a new streamlined electronic booking system to cope with over 60,000 education visitors a year. We have also revitalised our teaching spaces.
- Families are an increasingly important audience for Historic Royal Palaces and we are committed to developing a compelling offer for them. Following the success of the Gardens Discovery Weekend in May, a range of activities was offered in the Clore Learning Centre for the 'Kids Go Free' October half term week.
- We were pleased to receive record results in our visitor surveys praising frontline staff, particularly with the helpfulness/friendliness scores. Workshops have followed

## Trustees' Report (continued)

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to build on the research, and we are developing staff even further with storytelling and customer service training.

- All DCMS key performance indicator (KPI) visitor targets exceeded, with improvements on last year (see detail on page 6).
- Total spend across the headings of Public Access and Interpretation and Learning in the Statement of Financial Activities (SOFA) of £22m represents an increase of 6% over the previous year.

### 3. Have wider impact in the world

- Opening up the palaces to wider audiences and broadening our role is one of our key ambitions: the Tower of London held its first citizenship ceremony in February 2008.
- Outreach at the Tower has continued to work with the hardest to reach young people, who are educated in pupil referral units. Through arts-based initiatives, we have engaged youths who might otherwise never make contact with the Tower or its stories. The Tower Hamlets PRU has now become a Community Partner of Historic Royal Palaces, and one of our Outreach team sits on its management committee.
- Our curators have been busy with a lively programme of lectures, books and media appearances, with talks for members on subjects as diverse as 'Royal Fans: the ultimate accessory' and 'Roofs are not boring'.
- Our new website, re-launched in April 2007, has gone from strength to strength over the year. Market research shows a growth in use of the website by palace visitors and online researchers; online ticket sales and membership sales have doubled, as have the sale of advance tickets for occasional events such as ghost tours.
- This year we have focused efforts on understanding our existing audiences and working on ways of developing and broadening our reach to new groups.
- September 2007 was the month when news of our first female Yeoman Warder went global! Using Moira Cameron's first day in uniform, plus four other new recruits as a hook, the press team achieved unprecedented regional, national and worldwide coverage for the Tower of London.
- We are also pleased to report that the Minister for Culture, Creative Industries and Tourism at the Department of Culture Media and Sport has re-authorized us to continue to manage the five palaces on behalf of the Secretary of State for a further 10 years from 1st April 2008.

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

- HRP's performance framework is now embedded in the charity and has changed the way we recruit, induct, train and develop people.
- We delivered year two of our leadership programmes for all supervisors
- Last year we received 16,527 hours of support from our volunteers (a 62.5% increase). Our target was a 40% increase and we exceeded this by 2,297 hours. The highlight of the year was the RHS Gala Night for the Flower Show, when 85 volunteers helped with the event.
- Key IT projects were delivered including new Retail and HR/Payroll systems.
- The annual staff survey demonstrated that the majority of people who work at Historic Royal Palaces thoroughly enjoy their jobs. 79% of staff say they are proud to be working at Historic Royal Palaces, with 84% feeling that their work makes a real contribution to our success.

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

- Visitor numbers ended the year at 2.975 million, our highest for seven years
- Retail and Catering benefited from this strong return in visitor numbers and both exceeded their budgeted contribution.
- Against a challenging economic background, our functions and events business had a strong year, although slipping back in the last quarter
- To meet our development ambitions over the next ten years, we have launched a £20m capital campaign. We already have notable successes and landmarks to report, despite economically uncertain times. We were delighted to attract two major premier partners, the Diamond Trading Company and Man Group plc, the latter being the largest corporate partnership we have ever secured.
- Membership, in its third year, now exceeds 20,000 members. Events were sold out and there was a highly successful Christmas gifts campaign.

## Trustees' Report (continued)

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### Secretary of State's targets

It is a term of HRP's contract with the Secretary of State for Culture, Media and Sport that the Trustees agree performance targets with the Secretary of State. HRP's performance against the 2007/08 targets is reported below.

HRP has met or exceeded all the agreed targets.

### Visitor satisfaction rating

	2007/08 Target	2007/08 Actual	2006/07 Actual
Value for money	>0.7	1.21	1.05
Enjoyment	>1.3	1.60	1.49
Staff helpfulness	>1.3	1.64	1.52

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** - Invest at least £2.5 million in the conservation of our palaces, including successful delivery of the following projects:

- Tower of London Beauchamp and Bloody Towers
- Tower of London commencement of White Tower project
- Hampton Court Palace Chapel Royal

**Achievements** - All main projects achieved and expenditure on planned building conservation £2.7 million. This forms a specifically defined part of the overall expenditure of £13.5 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

	2007/08 Target	2007/08 Actual	2006/07 Actual
Enjoyment	>1.1	1.61	1.43
Quality of service	>1.1	1.48	1.38
Quality of sessions	>1.1	1.40	1.37

Key to education ratings

Excellent 2  
Good 1  
Just OK/Don't know 0  
Poor -1  
Very poor -2

### Financial liquidity

#### Target

- Cash balance at end of year: achieving or bettering £14 million
- Free reserves at end of year: achieving or bettering £5 million

#### Achievement

- Cash balance at the end of the year is £18 million.
- Free reserves at the end of the year are £5 million

# Trustees' Report (continued)

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## Financial Review

Providing over 60% of our total revenue, visitors remain our most important income stream. Following a strong return of visitors in 2006/07 (after the downturn we experienced in 2005/06 following the London July bombs), visitor numbers increased again in 2007/08 to 2.975m, our highest number since 2000/01. Admission revenue rose £2m to £34m. Our shops and cafes also benefited, with retail contributing a net surplus of over £1m to the charity for the second year in a row.

Following a major review in the year, the events business was again an area of success for us. However, the general worsening of the economic climate took its toll, and we ended the year slightly short of our target.

The fresh approach to fundraising launched last year has started to pay dividends and has attracted major donors to support our charitable work. Significant success towards the end of the year resulted in us almost achieving target in what is generally recognised to be an increasingly challenging climate for giving.

All this was achieved within budgeted expenditure and has allowed us to increase our free reserves by £1.1m to achieve our target of £5m.

## 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 updated three-year strategic plan. In determining a realistic level of reserves, several key factors are considered including the level of risk associated with the main income and expenditure streams, the adequacy of the controls in place to mitigate those risks and other contingencies available to call on in emergencies. This is balanced by the general legal duty that Trustees are under to apply income funds on the objects of the charity within a reasonable period of receiving them. Designated funds have been created to protect long-term commitments to major projects, including £3.8m towards the major development planned from 2009 at Kensington Palace.

Following this detailed review the target level for free reserves remains at £5 million and this has been achieved at March 2008.

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 these 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. The single largest fund at March 2008 is £3.8m towards the major development project at Kensington Palace.

## Trustees' Report (continued)

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- **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 2007 triennial actuarial valuation the Trustees approved an increase in employers' contributions into the scheme to meet its ongoing liabilities. In addition, an adjustment was approved to the remaining seven year plan to fund the deficit by fixed payments of £328,000 per annum. Both these changes impact from April 2008. HRP's strategic planning process allows for the pension payments to the scheme to be made from planned income each year, and therefore there is no requirement to ring fence an amount equal to the full deficit from other reserves to cover this liability. The FRS17 liability at March 2008 is £2.9 million (March 2007: £2.5 million).

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

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

### **Equal opportunities policies**

HRP is committed to a policy of equality of opportunity in all areas of employment, including recruitment, training, performance management and promotion. To encourage diversity in the workplace, formal policies 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 HRP to invest surplus funds in short-term cash deposits within the UK.

### **Suppliers' payment policy**

HRP observes the principles of the CBI Better Payment Practice code. The code requires bills to be paid in accordance with contractual obligations, or where no such conditions exist, within 30 days of the receipt of the goods or services, or the presentation of a valid invoice, whichever is the later. It is the policy of HRP to pay all invoices not in dispute in accordance with contractual terms. Payments are made fortnightly and include all invoices received in Finance and due for payment by the time of the next payment run.

During 2007/08 55% of supplier invoices were paid within 30 days of date of invoice (60% in 2006/07) and 71% within 40 days (76% in 2006/07).

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 1. The Board consists of a Chairman and ten Trustees, chosen for their skills and experience. All are non-executive and unpaid.

The Chairman is appointed by The Queen on the advice of the Secretary of State. Four Trustees are appointed by The Queen and three are ex officio appointments: The Director of the Royal Collection; The Keeper of the Privy Purse; and The Lord Chamberlain.

## Trustees' Report (continued)

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The Lord Chamberlain may choose to relinquish his appointment in which case, the Queen may also appoint someone to take his place. The remaining six are appointed by the Secretary of State, one of whom must be the Constable of the Tower of London.

The appointments are part-time, unpaid and last initially for three years. Under the Royal Charter, with the exception of ex officio appointments, Trustees may be appointed for a further two periods of up to three years, subject to review at the end of each period. Second appointments are only made exceptionally. Trustees are carefully selected for their skills and experience to support Historic Royal Palaces' work.

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

### **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, annual budgets 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 four Trustees: Sir Roger Wheeler (Chairman), Sue Farr, John Hamer and Sir Hugh Roberts. Sir Roger Wheeler and John Hamer served on the committee throughout the year. Sue Farr was appointed with effect from 15<sup>th</sup> May 2007, and Sir Hugh Roberts from 25<sup>th</sup> July 2007.

### **Policy statement**

The remit of the Remuneration Committee is governed by the legal framework of HRP as set out in the Royal Charter. In establishing the level of remuneration for the Chief Executive and Directors, 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 general market practice and consistent with recruiting and retaining Directors of the highest calibre. Members of the Board of Trustees receive no remuneration. However, they are entitled to claim expenses and to make charges if instructed by the Trust to apply their specialist skills or knowledge. Details are set out in Note 6 to the accounts.

### **Review of activity during the year**

At the Annual Salary Review in August 2007 Directors received a 3% salary increase, which was in line with the external market. In addition, the Directors received a performance-related bonus for the 2006/7 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 Directors' individual performance against agreed objectives. Performance-related bonuses for the 2007/8 period have been accrued and will be paid in accordance with the agreed scheme. During the year the Remuneration Committee agreed to a rule change to the bonus scheme to improve its operational fairness and clarity.

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

Charles Mackay  
*Chairman of the Board of Trustees*  
23 June 2008

Hampton Court Palace  
Surrey  
KT8 9AU

# Statement on Internal Control

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## Scope of responsibility

The Trustees and Chief Executive (as Accounting Officer) are jointly responsible for maintaining a sound system of internal control that supports the achievement of HRP's Cause and strategy, while safeguarding the public funds and assets for which the Accounting Officer is personally responsible in accordance with the responsibilities assigned in *Managing Public Money*

The respective allocation of responsibilities between the Trustees and Accounting Officer 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 HRP's Cause and strategy; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised 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 HRP for the year ended 31 March 2008 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 HRP are achieved in the most economic and effective manner.

The Executive Board:

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

Directors, managers and staff are responsible for identifying, assessing and managing the corporate 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 adequacy of HRP's arrangements for risk management and internal control. During the year the following Trustees served on the committee: Sir Alan Reid (Chairman), Bridget Cherry, Malcolm Reading, Sir Roger Wheeler (until 25 July 2007) and Dawn Austwick (since 15 May 2007).

## Statement on Internal Control (continued)

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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, internal control and corporate governance 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;
- 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:

- HRP's strategic plan has been updated for the three years to March 2011. This also involved identifying key strategic risks and opportunities;
- The strategic plan also includes a ten year vision for the organisation, setting out its broad ambitions in each of the five main strategic aims;
- Counter-terrorist security measures were kept under continual review during the year and enhanced where necessary. For example, in January 2008, the Tower of London carried out a major incident exercise based on a terrorist attack which brought out a number of valuable points that have led to improvements;
- In addition a desk top major incident exercise was completed involving the Executive Board and senior management. Most actions arising from the exercise have been completed and the remainder will be done early in 2008/9;
- HRP's Security Instructions have been completely reviewed and reissued in the HRP house style on the Intranet so that they are easily available. Among the changes have been an update of the threat, improvements to the damage procedure and Information Security guidance;
- Particular emphasis has been placed on information security during the past year. The Security Adviser has personally checked all departments to identify sensitive and personal data and ensure that it is being given the necessary security. All staff have been made aware of the dangers of sending sensitive data by e-mail and exporting such data from the HRP network onto laptops, CDs or USB sticks;
- Further progress has been made on the project at the Tower of London to provide vehicle defence measures to counter a vehicle bomb exploding either inside the Tower or in the crowded areas surrounding it. The project is due to begin in June and be completed by the end of October 2008;

## Statement on Internal Control (continued)

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- Every palace/department received a detailed inspection by the HRP's Security Review of effectiveness and no major problems were found;
- Internal audit conducted a review on the effectiveness of health and safety risk management and confirmed it was satisfactory. The audit identified that documented evidence needs to be improved, refresher management training is required and that there are gaps in our existing policies. A work programme is already in hand to address these areas.
- Work began on developing a bespoke training programme for all managers and supervisors on managing safely.
- A compliance review against the Control of Asbestos Regulations 2006 was undertaken using the assistance of a specialist contractor. An asbestos management plan was prepared and awareness training given to relevant staff in the Maintenance, Surveyor of the Fabric and IS teams.
- The new HRP electrical procedures for high risk activities were implemented at Hampton Court Palace. They are already in place at the Tower.
- A new deputy Fire, Health and Safety Adviser was appointed in October 2007 to champion fire safety across HRP.

### 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 2007/08.

Charles Mackay  
Chairman of the Board of Trustees  
23 June 2008

Michael Day  
Chief Executive and Accounting Officer

# Statement of Responsibility

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## Statement of Trustees' responsibilities

Law applicable to incorporated charities in England and Wales requires the Trustees of HRP to prepare (or have prepared) financial statements for each financial year that give a true and fair view of the state of affairs of the 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  
23 June 2008

## 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 *Managing Public Money* published by HM Treasury. He is also required to follow the Accounts Direction.

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

Michael Day  
Chief Executive and Accounting Officer  
23 June 2008

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

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I have audited the consolidated financial statements of Historic Royal Palaces for the year ended 31 March 2008. 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, 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 Statement 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 report to you whether, in my opinion, the information given in the Trustees Report is consistent with the financial statements. 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.

In addition, I report to you 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 Internal control reflects Historic Royal Palaces' compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers 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 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's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by 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.

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

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## Opinions

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' and the group's affairs as at 31 March 2008 and of its 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; and
- information given within the Trustees' Report is consistent with the financial statements.

## Opinion on Regularity

In my opinion, 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.

TJ Burr  
Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS  
1 July 2008

## Consolidated Statement of Financial Activities for the year ended 31 March 2008

	Note	Unrestricted funds £000	Restricted funds £000	Total 2008 £000	Total 2007 £000
<b>INCOMING RESOURCES</b>					
<b>Incoming resources from generated funds:</b>					
Voluntary income					
Grants and donations		101	428	529	852
Activities for generating funds					
Retail income		8,643	-	8,643	8,223
Functions and events		4,454	-	4,454	4,806
Licences and rents		2,178	-	2,178	2,493
Sponsorship		400	-	400	408
		<b>15,675</b>	<b>-</b>	<b>15,675</b>	<b>15,930</b>
Investment income		1,070	-	1,070	710
<b>Incoming resources from charitable activities:</b>					
Admissions		34,010	-	34,010	31,936
Concessions		1,310	-	1,310	1,370
<b>Total incoming resources</b>		<b>52,166</b>	<b>428</b>	<b>52,594</b>	<b>50,798</b>
<b>RESOURCES EXPENDED</b>					
<b>Costs of generating funds:</b>					
Fundraising		609	-	609	545
Retail activities		7,384	-	7,384	7,110
Other commercial activities		1,989	-	1,989	2,043
		<b>9,982</b>	<b>-</b>	<b>9,982</b>	<b>9,698</b>
<b>Charitable activities:</b>					
<i>Give the palaces the care they deserve</i>		13,217	230	13,447	12,032
<i>Transform the way visitors explore their story:</i>					
Public access		15,149	7	15,156	14,750
Interpretation and learning		6,856	17	6,873	5,957
<i>Have a wider impact in the world</i>		3,599	-	3,599	3,119
Governance costs	4	378	-	378	491
		<b>39,199</b>	<b>254</b>	<b>39,453</b>	<b>36,349</b>
Pension finance costs/(income)	8	(112)	-	(112)	(81)
<b>Total resources expended</b>	3	<b>49,069</b>	<b>254</b>	<b>49,323</b>	<b>45,966</b>
<b>Net incoming/(outgoing) resources before transfers</b>		<b>3,097</b>	<b>174</b>	<b>3,271</b>	<b>4,832</b>
Actuarial (loss) on pension plan	8	(1,260)	-	(1,260)	(319)
<b>Net movement in funds</b>		<b>1,837</b>	<b>174</b>	<b>2,011</b>	<b>4,513</b>
<b>Fund balances brought forward at 1 April</b>		<b>19,370</b>	<b>288</b>	<b>19,658</b>	<b>15,145</b>
<b>Fund balances carried forward at 31 March</b>		<b>21,207</b>	<b>462</b>	<b>21,669</b>	<b>19,658</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 19 to 36 form an integral part of these accounts.

## Consolidated and Trust Balance Sheets as at 31 March 2008

	Note	Group 2008 £000	Trust 2008 £000	Group 2007 £000	Trust 2007 £000
<i>Fixed assets:</i>					
Intangible assets	9	124	124	115	115
Tangible assets	10	8,493	8,493	9,465	9,465
Heritage assets	11	3,350	3,350	3,350	3,350
		<b>11,967</b>	<b>11,967</b>	<b>12,930</b>	<b>12,930</b>
<i>Current assets:</i>					
Stocks goods for resale		995	-	986	-
Debtors	12	2,689	2,318	2,589	2,424
Short-term cash deposits		16,634	16,634	12,693	12,693
Cash at bank and in-hand		1,395	997	1,429	1,038
		<b>21,713</b>	<b>19,949</b>	<b>17,697</b>	<b>16,155</b>
<i>Creditors:</i>					
Amounts falling due within one year	13	9,072	7,308	8,501	6,959
<b>Net current assets</b>		<b>12,641</b>	<b>12,641</b>	<b>9,196</b>	<b>9,196</b>
<b>Total assets less current liabilities</b>		<b>24,608</b>	<b>24,608</b>	<b>22,126</b>	<b>22,126</b>
<i>Provision for liabilities and charges</i>	14	58	58	11	11
<b>Net assets excluding Pension Plan liability</b>		<b>24,550</b>	<b>24,550</b>	<b>22,115</b>	<b>22,115</b>
<i>Pension Plan liability</i>	8	2,881	2,881	2,457	2,457
<b>Net assets including Pension Plan liability</b>		<b>21,669</b>	<b>21,669</b>	<b>19,658</b>	<b>19,658</b>
Unrestricted funds		21,207	21,207	19,370	19,370
Restricted funds		462	462	288	288
<b>Total funds</b>	5	<b>21,669</b>	<b>21,669</b>	<b>19,658</b>	<b>19,658</b>

These financial statements were approved by the Trustees and the Accounting Officer on 23 June 2008 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 19 to 36 form an integral part of these accounts.

## Consolidated Cash Flow Statement for the year ended 31 March 2008

	2008	2007	
	£000	£000	
Cash flow statement			
Net cash inflow/(outflow) from operating activities	3,566	5,275	
Returns on investment and servicing of finance:			
Interest received	1,070	710	
Taxation paid	(5)	(1)	
Investing activities:			
Purchase of tangible assets	(650)	(2,191)	
Purchase of intangible assets	(74)	(52)	
Purchase of heritage assets	-	(256)	
Management of liquid resources:*			
Net (purchase) of short-term deposits	(3,941)	(7,991)	
<b>(Decrease)/Increase in cash</b>	<b>(34)</b>	<b>(4,506)</b>	
	2008	2007	
<i>Reconciliation of net incoming resources to net cash inflow from operating activities</i>	£000	£000	
Net incoming/(outgoing) resources from charitable and trading activities	3,271	4,832	
Interest receivable	(1,070)	(710)	
Taxation	5	1	
Pension scheme: non-cash movements	(1,260)	(319)	
Depreciation	1,520	1,420	
Loss on disposal of fixed assets	167	187	
(Increase)/ Decrease in stocks	(9)	4	
(Increase)/ Decrease in debtors	(100)	1,402	
Increase / (Decrease) in creditors: current liabilities	571	(905)	
Increase / (Decrease) in provisions for liabilities and charges	47	(69)	
Increase / (Decrease) in pension plan liability	424	(568)	
<b>Net cash inflow/(outflow) from operating activities</b>	<b>3,566</b>	<b>5,275</b>	
<i>Analysis of net funds</i>			Change
	2008	2007	in year
	£000	£000	£000
Cash at bank and in hand	<b>1,395</b>	<b>1,429</b>	<b>(34)</b>

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

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 1 Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the 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.

### c) Basis of consolidation

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

### d) Funds

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

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

**Restricted funds** - restricted funds include those receipts which are subject to specific restrictions imposed by donors, including grants towards specific conservation and improvement projects undertaken at the palaces.

### e) Incoming resources

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

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

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 1 Accounting Policies (continued)

### f) Resources expended

All expenditure is accounted for on an accruals basis and has been classified under the principal categories of 'costs of generating funds' and 'charitable activities'. The expenditure classifications comprise direct expenditure, including staff costs, attributable to the activity. Governance costs are the costs associated with the governance arrangements of the 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 2006 intangible fixed assets costing more than £5,000 are capitalised and included at cost. Prior to 1 April 2006 assets costing more than £2,000 were capitalised and included at cost. From 1 April 2003 bought-in software licences are capitalised within intangible assets. Software licences purchased prior to 1 April 2003 are 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.

### h) Tangible fixed assets

From 1 April 2006 tangible fixed assets costing more than £5,000 are capitalised and included at cost. Prior to 1 April 2006 assets costing more than £2,000 were capitalised and included at cost. Assets are capitalised at a value net of VAT as, in accordance with SSAP 5, it is not practicable to include. All expenditure on repairing and maintaining the original fabric of the buildings and on non-revenue generating improvements is written off in the year incurred. All improvements to the fabric of the buildings, with the aim of raising or increasing revenue, are capitalised. New buildings constructed by the 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	5 years
Computer hardware	5 years

### i) Heritage Assets

SORP 2005 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. 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.

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 1 Accounting Policies (continued)

### 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 65% of VAT incurred by HRP is irrecoverable.

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 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. 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.

	2008	2007
	£000	£000
<b>Profit and loss account</b>		
Turnover	14,769	14,815
Cost of sales	(3,374)	(3,236)
<b>Gross profit</b>	<b>11,395</b>	<b>11,579</b>
Administrative expenses	(7,675)	(7,575)
Interest receivable	20	17
<b>Net profit</b>	<b>3,740</b>	<b>4,021</b>
Amount passed as Gift Aid to HRP	(3,737)	(4,020)
Taxation	(3)	(1)
<b>Retained in subsidiary</b>	<b>-</b>	<b>-</b>
	2008	2007
	£000	£000
<b>Balance Sheet as at 31 March 2008</b>		
Stocks goods for resale	996	986
Debtors	924	753
Cash	398	390
Current liabilities	(2,318)	(2,129)
<b>Net assets</b>	<b>-</b>	<b>-</b>
<b>Share capital and reserves</b>	<b>-</b>	<b>-</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 3. Total resources expended

	Total direct costs £000	Allocation of support costs £000	Total 2008 £000	Total 2007 £000
<b>Costs of generating funds</b>				
<b>Generating the money to make it possible</b>				
Fundraising	558	51	609	545
Retail activities	6,684	700	7,384	7,110
Other commercial activities	1,830	159	1,989	2,043
	<b>9,072</b>	<b>910</b>	<b>9,982</b>	<b>9,698</b>
<b>Charitable expenditure</b>				
<i>Give the palaces the care they deserve</i>	12,360	1,087	13,447	12,032
<i>Transform the way visitors explore their story:</i>				
Public access	13,401	1,755	15,156	14,750
Interpretation and learning	6,303	570	6,873	5,957
<i>Have a wider impact in the world</i>				
Governance costs (see Note 4)	355	23	378	491
	<b>35,802</b>	<b>3,651</b>	<b>39,453</b>	<b>36,349</b>
Pension finance costs/(income)	(112)		(112)	(81)
<b>Total</b>	<b>44,762</b>	<b>4,561</b>	<b>49,323</b>	<b>45,966</b>
<b>Resources expended include charges for:</b>			Total 2008 £000	Total 2007 £000
Auditors' remuneration:				
Audit	- HRP		23	22
	- HRPE		19	16
Non-audit	- HRP		15	11
Hire of equipment:				
Computers			88	100
Plant and machinery			143	150
Other			501	334
Depreciation written off owned fixed assets:				
Tangible			1,456	1,377
Intangible			64	43
Corporation tax			3	1

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 4. Support and governance costs

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

	Human Resources £000	Information Systems £000	Finance Department £000	Employee Services £000	Management Costs £000	Total 2008 £000	Total 2007 £000
<b>Costs of generating funds</b>							
Fundraising	9	16	16	4	6	51	50
Retail activities	116	202	260	51	71	700	750
Other commercial activities	26	45	60	11	17	159	176
<b>Charitable expenditure</b>							
<i>Give the palaces the care they deserve</i>	174	303	425	76	109	1,087	1,168
<i>Transform the way visitors explore their story:</i>							
Public access	385	670	293	167	240	1,755	1,812
Interpretation and learning	104	181	174	45	66	570	523
<i>Have a wider impact in the world</i>	21	36	138	9	12	216	221
Governance costs	5	9	5	2	2	23	37
<b>Total</b>	<b>840</b>	<b>1,462</b>	<b>1,371</b>	<b>365</b>	<b>523</b>	<b>4,561</b>	<b>4,737</b>

The bases of apportionment in the above table are:

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

### Governance costs

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

	Total 2008 £000	Total 2007 £000
Internal and external audit	183	192
Trustee meeting expenses	6	4
Trustee recruitment	-	43
Production of annual report	8	10
Management costs	158	205
Support costs	23	37
	<b>378</b>	<b>491</b>

## Notes to the Consolidated Accounts for the year ended 31 March 2008

### 5. Total funds

	Funds as at 1 April 2007	Incoming resources	Resources expended	Revaluations	Transfers between funds	Funds as at 31 March 2008
	£000	£000	£000	£000	£000	£000
<b>Unrestricted funds</b>						
<b>General (Free) reserves</b>	3,885	49,590	(47,329)	-	(1,146)	5,000
Designated funds	5,234	-	-	-	2,109	7,343
Fixed assets	12,708	-	-	-	(963)	11,745
Pension plan	(2,457)	2,576	(1,740)	(1,260)	-	(2,881)
<b>Total</b>	<b>19,370</b>	<b>52,166</b>	<b>(49,069)</b>	<b>(1,260)</b>	<b>-</b>	<b>21,207</b>
<b>Restricted funds</b>						
White Tower restoration, HM Tower of London	-	269	(162)	-	-	107
Royal Fusiliers Building restoration, HM Tower of London	-	21	(21)	-	-	-
Donated assets	222	-	-	-	-	222
Other	66	138	(71)	-	-	133
<b>Total</b>	<b>288</b>	<b>428</b>	<b>(254)</b>	<b>-</b>	<b>-</b>	<b>462</b>
<b>Total funds</b>	<b>19,658</b>	<b>52,594</b>	<b>(49,323)</b>	<b>(1,260)</b>	<b>-</b>	<b>21,669</b>

#### Designated funds

Funds have been designated out of general reserves to protect expenditure on long-term commitments to major projects. The single largest fund at 31 March 2008 is £3.8m towards a major development project at Kensington Palace.

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 5. Total funds (continued)

### Restricted funds

Restricted income received during the year was from the following sources:

	2008 £000	2007 £000
Man Group plc Charitable Trust (for White Tower restoration)	250	-
3i	65	-
Department of Culture Media & Sport (see note 19)	21	-
Royal Horticultural Society	16	-
Kirby Laing Foundation (for White Tower restoration)	10	-
Ernest Cook Trust	9	-
Mercers' Company (for White Tower restoration)	7	-
Tower Hill Trust	7	-
Coleman Charitable Trust	5	5
Leche Trust	5	-
MLA London	5	-
Trusthouse Charitable Foundation	5	-
Richmond Parish Lands Charity	4	-
Idlewild Trust	3	-
Barbara Whatmore Charitable Trust	2	-
C H K Charities Ltd (for White Tower restoration)	2	-
Heritage of London Trust	2	-
Irvin Organisation	2	-
Chapman Charitable Trust	1	1
Clore Leadership Programme	1	-
Arnold Burton 1998 Charitable Trust	1	5
Worshipful Company of Upholders Peter Jackson Charity	1	-
Garfield Weston Foundation	-	250
Bradbury Foundation	-	100
Heritage Lottery Fund	-	5
European Commission Research Directorate General	-	(4)*
Other grant income	2	-
<b>Total grant income</b>	<b>426</b>	<b>362</b>
Fidelity (UK) Foundation	-	150
The Art Fund	-	140
Basil Samuel Charitable Trust	-	10
A Minzly	-	5
Lord Inge	-	5
Andrew Bogle	-	3
John S Cohen Foundation	-	3
Heritage of London Trust	-	2
Other donations	2	13
<b>Total donations</b>	<b>2</b>	<b>331</b>
<b>Total restricted income</b>	<b>428</b>	<b>693</b>

\*2007 negative income represents 2006 over-accrual

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 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 £77 (2007: £165) for the year ending 31 March 2008. Expenses were reimbursed for two Trustees (2007: one). 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:

	2008 Total no. of staff	2007 Total no. of staff
Fundraising	7	6
Retail activities	83	90
Other commercial activities	18	17
<i>Give the palaces the care they deserve</i>	124	125
<i>Transform the way visitors explore their story:</i>		
Public access	274	273
Interpretation and learning	74	73
<i>Have a wider impact in the world</i>	15	15
Governance	4	4
Support costs	55	51
<b>Total</b>	<b>654</b>	<b>654</b>

The aggregate payroll costs of these staff were as follows:

	2008 £000	2007 £000
Wages and salaries	17,687	16,895
Loss of office	12	23
Social security costs	1,561	1,475
Pension costs	2,274	2,218
<b>Total</b>	<b>21,534</b>	<b>20,611</b>
Agency staff	564	427
<b>Total</b>	<b>22,098</b>	<b>21,038</b>

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

	2008 No. of staff	2007 No. of staff
£60,001 to £70,000	5	3
£70,001 to £80,000	-	2
£80,001 to £90,000	1	-
£90,001 to £100,000	2	1
£100,001 to £110,000	-	4
£110,001 to £120,000	4	-

There were twelve staff during the year earning in excess of £60,000 (2007: ten), seven were in a defined benefit scheme (2007: six) and five were in a defined contribution scheme (2007: three) where the employer contributions were £27,677 (2007: £19,996).

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 7. Staff numbers and costs (continued)

The aggregate emoluments of the Chief Executive were as follows:

	Age	Remuneration	Pension Contributions made to Group Personal Pension Plan
Michael Day	55	140,216	£10,380

The emoluments of the Chief Executive in 2006/7 totalled £133,092 (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 2007 and updated to 31 March 2008 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary were:

	At 31 March 2008	At 31 March 2007
Rate of increase in salaries	5.0%	4.4%
Rate of increase in pensions in payment where LPI applies (LPI - Limited Price Indexation)	3.6%	3.1%
Discount rate	6.1%	5.3%
Inflation assumption	3.7%	3.1%
Pre and post-retirement mortality table	PA92 medium cohort	PA92 medium cohort
Loading for mortality improvements (PA - Pension Annuitant Tables)	2.5%	0.0%

The assets in the scheme and the expected return were:

	Long-term rate of return expected at 31 March 2008	Value at 31 March 2008	Long-term rate of return expected at 31 March 2007	Value at 31 March 2007
		£000		£000
Equities	6.4%	21,943	6.6%	21,481
Bonds	4.4%	9,981	4.6%	8,881
Other (property, cash, etc)	4.4%	259	4.6%	160
<b>Total market value of assets</b>		<b>32,183</b>		<b>30,522</b>
<b>Present value of scheme liabilities</b>		<b>(35,064)</b>		<b>(32,979)</b>
<b>Net pension liability</b>		<b>(2,881)</b>		<b>(2,457)</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 8. Retirement benefits

### a) Defined Benefit Pension Scheme (continued)

The mortality table adopted at 31 March 2008 implies the following lengths of life:  
86 years 11 months for a Male retiring at age 60 in 2008.  
88 years 2 months for a Male retiring at age 60 in 2033.  
89 years 7 months for a Female retiring at age 60 in 2008.  
91 years 0 months for a Female retiring at age 60 in 2033,

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

	2008 £000	2007 £000
Current service cost	1,740	1,950

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

	2008 £000	2007 £000
Expected return on pension scheme assets	1,895	1,607
Interest on pension scheme liabilities	(1,783)	(1,526)
Net return	112	81

#### Analysis of amount recognised in funds movement

	2008 £000	2007 £000
Actual return less expected return on pension scheme assets	(2,271)	31
Experience (loss)/gain arising on the scheme liabilities	(884)	(533)
Changes in assumptions underlying the present value of the scheme liabilities	1,895	183
<b>Actuarial (loss)/gain</b>	<b>(1,260)</b>	<b>(319)</b>

#### Movement in funds during the year

	2008 £000	2007 £000
Deficit in scheme at beginning of the year	(2,457)	(3,025)
Movement in year:		
Current service cost	(1,740)	(1,950)
Contributions	2,464	2,756
Other finance income	112	81
Actuarial (loss)/gain	(1,260)	(319)
Deficit in scheme at end of the year	<b>(2,881)</b>	<b>(2,457)</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 8. Retirement benefits (continued)

### a) Defined Benefit Pension Scheme (continued)

Note 5 shows the inclusion of the movements in the pension fund within the SOFA .

Following the 2007 actuarial valuation the Employer agreed a contribution rate of 27.0 % (including 1.5% payable by members). The Employer also pays a 1.6% 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 to fund the past service deficit. The Employer, with the approval of the Scheme Trustees, has agreed to pay £327,600 per annum which is anticipated to continue for seven years to fund past service deficit and its notional related growth.

All the contributions have been set and agreed with the Scheme's Actuary on the basis of the Scheme's Statement of Funding Principles and Recovery Plan.

Employees can also make additional voluntary contributions. These are not brought to account in the scheme statements and the responsibilities of HRP extend only to ensuring that members' contributions are paid to the appropriate providers. Members making contributions receive annual statements from the providers confirming amounts held on their account and the movements in the year.

#### History of experience gains and losses

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Difference between the expected and actual return on scheme assets:					
Amount	(2,271)	31	4,007	984	2,056
Percentage of scheme assets	(7.0)%	0%	15%	5%	14%
Experience (loss)/gain on scheme liabilities:					
Amount	(884)	(533)	119	806	41
Percentage of the present value of the scheme liabilities	(3%)	(2%)	0%	3%	0%
Changes in assumptions underlying the present value of the scheme liabilities:					
Amount	1,895	183	(3,419)	(887)	(876)
Percentage of the present value of the scheme liabilities	5%	1%	(11%)	(4%)	(4%)
Total actuarial (loss)/gain					
Amount	(1,260)	(319)	707	903	1,221
Percentage of the present value of the scheme liabilities	(4%)	1%	2%	4%	6%

### 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 £ 376,264 (2007: £326,754), with no outstanding contributions at the balance sheet date (2007: £29,383).

## Notes to the Consolidated Accounts for the year ended 31 March 2008

### 9. Intangible fixed assets

	Software licences £000
<b>Cost</b>	
Balance as at 1 April 2007	247
Additions	74
Disposals	(50)
<b>Balance as at 31 March 2008</b>	<b>271</b>
<b>Accumulated depreciation</b>	
Balance as at 1 April 2007	132
Charge for the year	64
Disposals	(49)
<b>Balance as at 31 March 2008</b>	<b>147</b>
<b>Net book value as at 31 March 2008</b>	<b>124</b>
As at 1 April 2007	115

The net book value as at 31 March 2008 represents intangible fixed assets used for

	£000
<b>Costs of generating funds</b>	
Fundraising	1
Retail activities	13
Other commercial activities	4
<b>Charitable expenditure</b>	
<i>Give the palaces the care they deserve</i>	20
<i>Transform the way visitors explore their story:</i>	
Public access	54
Interpretation and learning	28
<i>Have a wider impact in the world</i>	2
Governance costs	2
	<b>124</b>

## Notes to the Consolidated Accounts for the year ended 31 March 2008

### 10. 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 2007</b>	9,626	3,844	2,808	517	3,604	484	20,883
Additions	27	78	63	-	44	438	650
Disposals	-	(105)	(204)	(130)	(35)	(143)	(617)
Transfers within tangible assets	-	172	134	215	96	(617)	-
<b>Balance as at 31 March 2008</b>	9,653	3,989	2,801	602	3,709	162	20,916
<b>Accumulated depreciation</b>							
<b>Balance as at 1 April 2007</b>	4,212	2,721	2,019	443	2,023	-	11,418
Charge for the year	782	191	157	72	254	-	1,456
Disposals	-	(102)	(203)	(130)	(16)	-	(451)
<b>Balance as at 31 March 2008</b>	4,994	2,810	1,973	385	2,261	-	12,423
<b>Net book value as at 31 March 2008</b>	4,659	1,179	828	217	1,448	162	8,493
As at 1 April 2007	5,414	1,123	789	74	1,581	484	9,465
<b>The net book value as at 31 March 2008 represents fixed assets used for</b>							
<b>Costs of generating funds:</b>							
Fundraising			14	2			16
Retail activities	734	564	36	30	252	6	1,622
Other commercial activities	132	22	20	7		5	186
<b>Charitable expenditure:</b>		163	35	47	324	18	587
<i>Give the palaces the care they deserve</i>							
<i>Transform the way visitors explore their story:</i>	2,490	63	295	100	836	126	3,910
Public access	1,303	367	419	25	22	5	2,141
Interpretation and learning			9	5	14	2	30
<i>Have a wider impact in the world</i>				1			1
Governance costs							
	<b>4,659</b>	<b>1,179</b>	<b>828</b>	<b>217</b>	<b>1,448</b>	<b>162</b>	<b>8,493</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 11. Heritage assets

	Total £000
<b>Cost and net book value</b>	
Balance as at 1 April 2007	3,350
Additions	-
Transfers from assets in the course of construction	-
Disposals	-
<b>Balance as at 31 March 2008</b>	<b>3,350</b>

The net book value as at 31 March 2008 represents heritage assets used for:

### Charitable expenditure

*Transform the way visitors explore their story:*

Interpretation and learning	3,350
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## 12. Debtors

	Group 2008 £000	Trust 2008 £000	Group 2007 £000	Trust 2007 £000
Trade debtors	1,458	776	1,182	635
Amounts due from subsidiary	-	553	-	587
Other debtors	143	134	156	154
Prepayments and accrued income	1,088	855	1,251	1,048
	<b>2,689</b>	<b>2,318</b>	<b>2,589</b>	<b>2,424</b>

Within debtors nil is due after more than one year (2007: nil).

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

	Group 2008 £000	Trust 2008 £000	Group 2007 £000	Trust 2007 £000
Trade creditors	1,301	1,134	840	661
Taxation and social security	740	502	632	474
Other creditors	282	187	335	260
Accruals	4,606	4,270	5,295	4,899
Deferred income	2,143	1,215	1,399	665
	<b>9,072</b>	<b>7,308</b>	<b>8,501</b>	<b>6,959</b>

Within creditors nil is due after more than one year (2007 nil).

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 14. Provision for liabilities and charges

	Claims	Total
	£000	£000
Balance as at 1 April 2007	11	11
Amounts charged in year	(11)	(11)
New provisions in year	58	58
<b>Balance as at 31 March 2008</b>	<b>58</b>	<b>58</b>

Claim provisions include amounts that will probably be due following public liability claims.

## 15 Financial commitments under operating leases

	Group 2008 £000	Trust 2008 £000	Group 2007 £000	Trust 2007 £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	23	23	9	8
Between two to five years	428	342	362	360
<b>Total payable within one year</b>	<b>660</b>	<b>534</b>	<b>580</b>	<b>537</b>

## 16. Capital commitments

	Group 2008 £000	Trust 2008 £000	Group 2007 £000	Trust 2007 £000
Contracted capital commitments as at 31 March 2008, for which no provision has been made in the accounts:				
Contracted	1,770	1,770	1,577	1,577
Authorised	5,147	5,147	1,698	1,698
	<b>6,917</b>	<b>6,917</b>	<b>3,275</b>	<b>3,275</b>

Commitments include £1,780,000 (2007: nil) relating to projects that are being funded by donations from third parties.

## 17 Contingent liabilities

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

## 18. Financial key performance indicators

Financial key performance indicators for the Trust are stated on page 6.

# Notes to the Consolidated Accounts for the year ended 31 March 2008

## 19. Related party transactions

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

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

Historic Royal Palaces (HRP) is contracted by the Secretary of State for the Department of Culture, Media and Sport (DCMS) to manage the palaces on his behalf. The DCMS is responsible for the upkeep of the Royal Fusiliers Building within the Tower of London. During the year the DCMS agreed funding for HRP to repair and conserve this building on their behalf. The project will complete in 2008/09.

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

Related party	Connected party	2008 £000	2007 £000	Detail of transaction
The Attingham Trust	Sir Hugh Roberts (Trustee of HRP) is a member of the Council of the Attingham Trust.	2 (nil)	2 (nil)	Payment by HRP for training.
Bobath Centre for Children with Cerebral Palsy	HRH Duchess of Gloucester	6 (nil)		Charges made by HRPE for an event at Kensington Palace
The British Menswear Guild	HRH Duke of Kent	6 (nil)		Charges made by HRPE for an event at Kensington Palace
Canine Partners	HRH Duke of Gloucester	6 (nil)		Charges made by HRPE for an event at Kensington Palace
Duke of Edinburgh's Awards International Foundation	HRH Earl of Wessex	9 (nil)		Charges made by HRPE for an event at Hampton Court Palace.
	HRH Earl of Wessex & HRH Duke of Edinburgh	6 (nil)		Charges made by HRPE for an event at Kensington Palace
Foreign and Commonwealth Office	Malcolm Reading (Trustee of HRP) is a Consultant to FCO	2 (nil)		Charges made by HRPE for an event at HM Tower of London
HRH The Prince of Wales is President of the Prince's Trust	HM The Queen		127 (nil)	Charges made by HRPE to The Prince's Trust for a concert at HM Tower of London
Michael Page International	Sir Adrian Montague (Trustee of HRP) is Chairman of MPI	69 (nil)		Charges made to HRP from Michael Page for recruitment and temporary staff

## Notes to the Consolidated Accounts for the year ended 31 March 2008

### 19. Related party transactions (continued)

Related party	Connected party	2008 £000	2007 £000	Detail of transaction
King Edward VII's Hospital Sister Agnes	HRH Duke of Kent  Sir Alan Reid (Trustee of HRP) is Governor and Treasurer	6 (nil)		Charges made by HRPE for an event at Kensington Palace
Royal Armouries (RA)	General Sir Roger Wheeler (Trustee of HRP) is a Trustee of RA.	280 (nil)	102 (70)	Payment by HRP to RA for goods and services provided at HM Tower of London.
		32 (27)	5 (nil)	Recovery of costs from RA for maintenance, goods and services provided by HRP at HM Tower of London.
		15 (nil)	20 (nil)	Purchases by HRPE of goods for resale.
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 the Chairman of RCEL.  Sir Hugh Roberts (Trustee of HRP) is a Director of RCEL.	12 (nil)	11 (nil)	Charges made by HRPE & HRP to RCT for cleaning and conservation of tapestries and historic garments.
		7 (nil)	14 (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)	24 (24)	Recovery by RCT from HRP of a proportion of the costs of maintaining Royal Collection items displayed in the palaces.

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.