

FINANCIAL STATEMENTS

AS AT 31 MARCH 2007

Trustees Report

Trustees

Charles Mackay (*Chairman* - appointed 5 May 2006)
Field Marshal the Rt Hon the Lord Inge KG GCB DL (*Acting Chairman* until 4 May 2006;
Deputy Chairman until 31 March 2007 when he also ceased to be a trustee)
Sir Alan Reid KCVO (*Deputy Chairman* since 1 April 2007)
Dawn Austwick OBE (since 1 April 2007)
Bridget Cherry OBE FSA
Sue Farr (since 1 April 2007)
John Hamer
Angela Heylin OBE (until 31 March 2007)
Sir Trevor McDonald OBE (since 1 April 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 (since 2 October 2006)
Major General Geoffrey Field CB CVO OBE (until 30 November 2006)
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

Trustees' Report (continued)

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 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.

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.

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)

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 is set out in the *State of the Estate* and the new *State of the Interiors* reports, and the Gardens Conservation Management Plans. The top ten conservation projects in each of these areas have now 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

During 2006/07 we have continued 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 and functions and events.

Trustees' Report (continued)

Achievements and Performance

1. Give the palaces the care they deserve

- Major conservation projects have proceeded, including the Hampton Court Palace lead roofs, the Tiltyard Tower and Chapel Court elevations. At the Tower of London repairs were carried out to the Bloody Tower roof.
- Conservation programmes have progressed with the completion of phase 1 of the State of the Interiors survey and important interior conservation treatment work.
- New gardens projects have included restoration of the Lower Orangery Exotic Garden at Hampton Court and progress on landscape plans for Kensington Palace.
- In addition to the total spend of £12m in the SOFA, a further £0.3m expenditure has been capitalised. Spend in the previous year includes almost £1m of the Kew Palace costs.

2. Transform the way visitors explore their story

- Kew Palace was re-opened in May 2006, on time and under budget, following a major conservation project. It introduces an entirely new, highly original approach to interpretation to tell the story of the Palace and George III's life and family. It welcomed 80,000 visitors in its first year some 20,000 more than we were expecting.
- The opening of the Clore Learning Centre at the end of March 2007 marked a step change in our education provision at Hampton Court.
- Key interpretation initiatives included the start of the Henry VIII project and Mantegna Gallery representation at Hampton Court, a new execution site memorial at the Tower of London and Memories of The Queen in Paris at Kensington Palace.
- We have also been developing Storytelling as a key part of our purpose and a powerful tool for communication and engagement with a wide and varied audience.
- All DCMS key performance indicator (KPI) visitor targets exceeded, with improvements on last year (see detail on page 5).
- In addition to total spend across the headings of Public Access and Interpretation and Learning in the Statement of Financial Activities (SOFA) of £20.7m, a further £1.5m expenditure has been capitalised, mainly the Clore Learning Centre (£1.3m). Spend in the previous year includes £1.7m of the Kew Palace costs.

3. Have wider impact in the world

- Our new visual identity has been rolled out across all HRP work, activities and public communication.
- Our new website launched at the end of the year - a showcase for our Cause and to drive commercial growth.
- Our Membership scheme ended its first full year with 17,000 members, way ahead of our target of 10,000.

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 2 of our leadership programme for all supervisors
- Our Volunteer programme extended its activity and increased annual hours by 50%
- A full staff survey was carried out, achieving an 80% response rate.
- Key IS projects were delivered including new telecoms and education and events booking systems

5. Generate the money to make it all possible

- Visitor numbers ended the year at 2.924 million our highest for six years
- Retail and Catering benefited from this strong return in visitor numbers and both significantly exceeded their budgeted contribution.
- Our events business had another record year
- Backed by a new strategy our fundraising initiatives are now delivering well, with the campaign for the Clore Learning Centre beating its target.

Trustees' Report (continued)

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 2006/07 targets is reported below.

HRP has met or exceeded all the agreed targets.

Visitor satisfaction ratings

	2006/7 Target	2006/7 Actual
Value for money	>0.70	1.05
Enjoyment	>1.25	1.49
Staff helpfulness	>1.25	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 £2.2 million in the conservation of our palaces, including successful delivery of the following projects:

- Hampton Court Palace lead roofs, phase 2.
- Hampton Court Palace Tiltyard Tower
- Kew Queen Charlotte's Cottage external decorations

Achievements - All main projects achieved and expenditure on planned building conservation £2.2 million. This forms a specifically defined part of the overall expenditure of £12 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

	2006/7 Target	2006/7 Actual
Enjoyment	>1.0	1.43
Quality of service	>1.0	1.38
Quality of sessions	>1.0	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 annual operating plan budget - £5.5 million
- Free reserves at end of year: achieving or bettering annual operating plan budget - £2.6 million

Achievement

- Cash balance at the end of the year is £14.1 million.
- Free reserves at the end of the year is £3.9 million

Trustees' Report (continued)

Financial Review

At over 60% of our total income, revenue from visitors remains our most important income stream. There was a strong return in visitor numbers over 2006/07 after the significant impact last year of the events of 7th and 21st July which cost us £5m in total lost revenues. Visitor numbers were up 17% at 2.924m, our highest number of visitors since 2000/01, and visitor admission income was £4.6m higher at £31.9m. Retailing and catering also benefited from the strong return in visitor numbers, with retail contributing a net surplus of over £2m to the charity; its highest for four years. Income earned from our functions and events business was again an area of considerable success for us, outperforming both the budget and the very high level of income achieved last year when the EU summit was held at Hampton Court. Supported by a new fundraising strategy, our Development team scored some notable successes in the year with membership, the campaign for the Clore Learning Centre and corporate sponsorship. Over £1.4m was raised in the year, more than twice the amount in the previous year.

All this was achieved within budgeted expenditure and has allowed us to return just over the £1m to free reserves that was used to mitigate the impact of the July bombings in 2005/06 and to start building a designated reserve for the development project at Kensington Palace.

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 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 £3m 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 should be achieved by March 2008. Free reserves stand at £3.9m as at March 2007.

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.

Trustees' Report (continued)

- **Designated funds**

Funds have been designated out of general funds to protect long-term commitments to major projects. The single largest fund at March 2007 is £3m towards the major development project at Kensington Palace.

- **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 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. HRP'S 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 2007 is £2.5 million (March 2006: £3.0 million). The next triennial valuation, as at March 2007, will be reported towards the end of 2007 and any proposed changes to contributions will impact from April 2008.

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 2006/07 60% of supplier invoices were paid within 30 days of date of invoice (65% in 2005/06) and 76% within 40 days (75% in 2005/06).

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.

Trustees' Report (continued)

In October 2006, an amendment to the Royal Charter permitted the appointment of two additional Trustees which are included in the numbers reported above. Three of the Trustees appointed by The Queen have been made ex officio, being the Keeper of the Privy Purse, the Director of the Royal Collection and Lord Chamberlain. However the Lord Chamberlain may choose not to serve as a trustee in which case a replacement may be appointed by the Queen.

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 three Trustees appointed in April 2007. 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. The appointments are part-time, unpaid and last for three years. They normally serve two terms and, in exceptional circumstances, may be appointed for a final term of three years.

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 three Trustees: Sir Roger Wheeler (Chairman), John Hamer and Angela Heylin. All three Trustees served on the committee throughout the year. Angela Heylin retired from the committee with effect from 1st April 2007 and Sue Farr has been appointed as her replacement.

Policy statement

The remit of the Remuneration Committee is governed by the legal framework of HRP as set out in the Royal Charter. In establishing the level of remuneration for each 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 2006 Directors received a 2.5% salary increase, which was broadly in line with the external market. In addition, the Directors received a performance-related bonus for the 2005/6 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 2006/7 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 information on the number of employees whose remuneration (excluding pension contributions) exceeds £60,000.

Charles Mackay
Chairman of the Board of Trustees
25 June 2007

Hampton Court Palace
Surrey
KT8 9AU

Statement on Internal Control

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 *Government Accounting*.

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 2007 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.

Statement on Internal Control (continued)

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, Sir Roger Wheeler and Malcolm Reading.

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:

- following the major review last year of risk management to align it with our new Cause and strategy, a full revision and update of all departmental risk registers was undertaken;
- HRP'S strategic plan has been updated for the three years to March 2010. 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;
- Health, safety and environmental (HSE) management system was further developed, and policies were prepared for portable electronic equipment and smoke-free premises regulations
- A new staff health and safety handbook was published.
- A fire safety audit was conducted across HRP and the resulting 27 recommendations are now being actioned.
- Detailed procedures for action in the event of the loss or damage of historic fabric and collection items were agreed and have been incorporated into HRP's security instructions.
- The Security Advisor has reviewed the handling of personal data in each department and has confirmed that HRP's compliance with the Data Protection Act
- Considerable work has been carried out in planning additional closed circuit television coverage at Hampton Court Palace and Kensington Palace, and an ISIS alarm system has been installed to cover nearly all visitor routes.
- All security works were completed in time for the opening of Kew Palace and the Clore Learning Centre at Hampton Court Palace

Statement on Internal Control (continued)

- A project has been initiated 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.
- Every palace/department received a detailed inspection by the HRP'S Security Review of effectiveness 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 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 2006/07.

Charles Mackay
Chairman of the Board of Trustees
25 June 2007

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 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
25 June 2007

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.

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
25 June 2007

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

I have audited the consolidated financial statements of HRP for the year ended 31 March 2007. 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, certain 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 HRP has not kept proper accounting records, if I have not received all the information and explanations I require for my audit.

I review whether the Statement on Internal control reflects HRP'S 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 HRP'S 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 HRP'S 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.

Opinions

Audit 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 HRP'S and the group's affairs as at 31 March 2007 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.

Audit 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.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
05 July 2007

Consolidated Statement of Financial Activities for the year ended 31 March 2007

	Note	Unrestrict ed funds £000	Restricted funds £000	Total 2007 £000	Total 2006 £000
INCOMING RESOURCES					
Incoming resources from generated funds:					
Voluntary income					
Grants and donations		159	693	852	2,572
Activities for generating funds					
Retail income		8,223	-	8,223	7,632
Functions and events		4,806	-	4,806	4,739
Licences and rents		2,493	-	2,493	2,012
Sponsorship		408	-	408	166
		15,930	-	15,930	14,549
Investment income		710	-	710	649
Incoming resources from charitable activities:					
Admissions		31,936	-	31,936	27,384
Concessions		1,370	-	1,370	1,005
Total incoming resources		50,105	693	50,798	46,159
RESOURCES EXPENDED					
Costs of generating funds:					
Fundraising		545	-	545	545
Retail activities		7,110	-	7,110	6,732
Other commercial activities		2,043	-	2,043	1,794
		9,698	-	9,698	9,071
Charitable activities:					
<i>Give the palaces the care they deserve</i>		11,976	56	12,032	11,894
<i>Transform the way visitors explore their story:</i>					
Public access		14,720	30	14,750	15,135
Interpretation and learning		5,356	601	5,957	7,037
<i>Have a wider impact in the world</i>		3,119	-	3,119	3,158
Governance costs	4	491	-	491	432
		35,662	687	36,349	37,656
Pension finance costs	8	(81)	-	(81)	66
Total resources expended	3	45,279	687	45,966	46,793
Net incoming/(outgoing) resources before transfers					
Actuarial (loss)/gain on pension plan	8	4,826	6	4,832	(634)
		(319)	-	(319)	707
Net movement in funds		4,507	6	4,513	73
Fund balances brought forward at 1 April		14,863	282	15,145	15,072
Fund balances carried forward at 31 March		19,370	288	19,658	15,145

The amounts shown above derive from continuing activities. There were no recognised gains or losses other than those disclosed above. The notes on pages 18 to 34 form an integral part of these accounts.

Consolidated and Trust Balance Sheets as at 31 March 2007

	Note	Group 2007 £000	Trust 2007 £000	Group 2006 £000	Trust 2006 £000
<i>Fixed assets:</i>					
Intangible assets	9	115	115	106	106
Tangible assets	10	9,465	9,465	8,921	8,921
Heritage assets	11	3,350	3,350	3,011	3,011
		12,930	12,930	12,038	12,038
<i>Current assets:</i>					
Stocks goods for resale		986	-	990	-
Debtors	12	2,589	2,424	3,991	4,058
Short-term cash deposits		12,693	12,693	4,702	4,702
Cash at bank and in-hand		1,429	1,038	5,935	5,482
		17,697	16,155	15,618	14,242
<i>Creditors:</i>					
Amounts falling due within one year	13	8,501	6,959	9,406	8,030
Net current assets		9,196	9,196	6,212	6,212
Total assets less current liabilities		22,126	22,126	18,250	18,250
<i>Provision for liabilities and charges</i>	14	11	11	80	80
Net assets excluding Pension Plan liability		22,115	22,115	18,170	18,170
<i>Pension Plan liability</i>	8	2,457	2,457	3,025	3,025
Net assets including Pension Plan liability		19,658	19,658	15,145	15,145
Unrestricted funds		19,370	19,370	14,863	14,863
Restricted funds		288	288	282	282
Total funds	5	19,658	19,658	15,145	15,145

These financial statements were approved by the Trustees and the Accounting Officer on 25 June 2007 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 18 to 34 form an integral part of these accounts.
These accounts were authorised for issue on 13th July 2007.

Consolidated Cash Flow Statement for the year ended 31 March 2007

	2007	2006	
	£000	£000	
Cash flow statement			
Net cash inflow/(outflow) from operating activities	5,275	(703)	
Returns on investment and servicing of finance:			
Interest received	710	652	
Taxation paid	(1)	(1)	
Investing activities:			
Purchase of tangible assets	(2,191)	(1,224)	
Purchase of intangible assets	(52)	(3)	
Purchase of heritage assets	(256)	(76)	
Management of liquid resources:*			
Net (purchase)/sale of short-term deposits	(7,991)	1,915	
(Decrease)/Increase in cash	(4,506)	560	
	2007	2006	
<i>Reconciliation of net incoming resources to net cash inflow from operating activities</i>	<i>£000</i>	<i>£000</i>	
Net incoming/(outgoing) resources from charitable and trading activities	4,832	(634)	
Interest receivable	(710)	(649)	
Taxation	1	1	
Pension scheme: non-cash movements	(319)	(236)	
Depreciation	1,420	1,425	
Loss on disposal of fixed assets	187	33	
Decrease in stocks	4	3	
Decrease/(Increase) in debtors	1,402	(1,487)	
(Decrease)/Increase in creditors: current liabilities	(905)	1,990	
(Decrease)/increase in provisions for liabilities and charges	(69)	(476)	
Decrease in pension plan liability	(568)	(673)	
Net cash inflow/(outflow) from operating activities	5,275	(703)	
<i>Analysis of net funds</i>			Change
	2007	2006	in year
	£000	£000	£000
Cash at bank and in hand	1,429	5,935	(4,506)

* Liquid resources include term deposits of less than a year

Notes to the Consolidated Accounts for the year ended 31 March 2007

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 2007

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 £2000 were capitalised and included at cost. From 1 April 2003 bought-in software licences are capitalised 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.

h) Tangible fixed assets

From 1 April 2006 tangible fixed assets costing more than £5000 are capitalised and included at cost. Prior to 1 April 2006 assets costing more than £2000 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 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. 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 2007

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 60% of VAT incurred by HRP is irrecoverable.

Notes to the Consolidated Accounts for the year ended 31 March 2007

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.

	2007	2006
	£000	£000
Profit and loss account		
Turnover	14,815	13,576
Cost of sales	(3,236)	(3,075)
Gross profit	11,579	10,501
Administrative expenses	(7,575)	(7,055)
Interest receivable	17	20
Net profit	4,021	3,466
Amount passed as Gift Aid to HRP	(4,020)	(3,465)
Taxation	(1)	(1)
Retained in subsidiary	-	-
	2007	2006
	£000	£000
Balance Sheet as at 31 March 2007		
Stocks goods for resale	986	990
Debtors	753	647
Cash	390	453
Current liabilities	(2,129)	(2,090)
Net assets	-	-
Share capital and reserves	-	-

Notes to the Consolidated Accounts for the year ended 31 March 2007

3. Total resources expended

	Total direct costs £000	Allocation of support costs £000	Total 2007 £000	Total 2006 £000
Costs of generating funds				
Generating the money to make it possible				
Fundraising	495	50	545	545
Retail activities	6,360	750	7,110	6,732
Other commercial activities	1,867	176	2,043	1,794
	8,722	976	9,698	9,071
Charitable expenditure				
<i>Give the palaces the care they deserve</i>	10,864	1,168	12,032	11,894
<i>Transform the way visitors explore their story:</i>				
Public access	12,938	1,812	14,750	15,135
Interpretation and learning	5,434	523	5,957	7,037
<i>Have a wider impact in the world</i>	2,898	221	3,119	3,158
	32,134	3,724	35,858	37,224
Governance costs (see Note 4)	454	37	491	432
	41,310	4,737	46,047	46,727
Pension finance costs	(81)	-	(81)	66
Total	41,229	4,737	45,966	46,793
Resources expended include charges for:			Total 2007 £000	Total 2006 £000
Auditors' remuneration:				
Audit	- HRP		22	22
	- HRPE		16	16
Non-audit	- HRP		11	-
Hire of equipment:				
	Computers		100	114
	Plant and machinery		150	157
	Other		334	284
Depreciation written off owned fixed assets:				
	Tangible		1377	1,386
	Intangible		43	39
Corporation tax			1	1

Notes to the Consolidated Accounts for the year ended 31 March 2007

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 2007 £000	Total 2006 £000
Costs of generating funds							
Fundraising	9	12	16	8	5	50	50
Retail activities	142	188	272	70	78	750	709
Other commercial activities	27	35	78	21	15	176	138
Charitable expenditure							
<i>Give the palaces the care they deserve</i>	219	291	405	133	120	1,168	1,072
<i>Transform the way visitors explore their story:</i>							
Public access	432	574	318	250	238	1,812	1,862
Interpretation and learning	95	126	164	86	52	523	594
<i>Have a wider impact in the world</i>	23	31	132	22	13	221	207
Governance costs	6	8	11	9	3	37	35
Total	953	1,265	1,396	599	524	4,737	4,667

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 2007	Total 2006
	£000	£000
Internal and external audit	192	240
Trustee meeting expenses	4	3
Trustee recruitment	43	-
Production of annual report	10	7
Management costs	205	147
Support costs	37	35
	491	432

Notes to the Consolidated Accounts for the year ended 31 March 2007

5. Total funds

	Funds as at 1 April 2006	Incoming resources	Resources expended	Revaluations	Transfers between funds	Funds as at 31 March 2007
	£000	£000	£000	£000	£000	£000
Unrestricted funds						
General (Free) reserves	2,770	47,268	(43,329)	-	(2,824)	3,885
Designated funds	3,080	-	-	-	2,154	5,234
Fixed assets	12,038	-	-	-	670	12,708
Pension plan	(3,025)	2,837	(1,950)	(319)	-	(2,457)
Total	14,863	50,105	(45,279)	(319)	-	19,370
Restricted funds						
Clore Learning Centre	86	515	(601)	-	-	-
Donated assets	79	143	-	-	-	222
Other	117	35	(86)	-	-	66
Total	282	693	(687)	-	-	288
Total funds	15,145	50,798	(45,966)	(319)	-	19,658

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 2007 is £3.0m towards a major development project at Kensington Palace.

Notes to the Consolidated Accounts for the year ended 31 March 2007

5. Total funds (continued)

Restricted funds

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. The Centre opened in March 2007

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

	2007 £000	2006 £000
Heritage Lottery Fund	5	1,141
Arnold Burton	5	-
Garfield Weston Foundation	250	-
Chapman Charitable Trust	1	-
J & F Coleman Charitable Trust	5	-
Bradbury Foundation	100	-
The Wolfson Foundation	-	75
European Commission Research Directorate General	(4)*	18
Sir John Cass's Foundation	-	27
Other grant income	-	29
Total grant income	362	1,290
Fidelity Foundation	150	-
Art Fund	140	-
Basil Samuel	10	-
Lord Inge	5	-
A Minzly	5	-
John S Cohen Foundation	3	-
Andrew Bogle	3	-
Heritage of London Trust	2	-
The Clore Duffield Foundation	-	700
The Hobson Charity	-	150
Neil and Julie Record	-	100
The Gosling Foundation	-	50
The Eranda Foundation	-	40
Private benefactors - Kew Palace project	-	37
The John Ellerman Foundation	-	30
Bruce and Jane Carnegie-Brown	-	25
Other donations	13	55
Total donations	331	1,187
Other restricted income	-	21
Total restricted income	693	2,498

*2007 negative income represents 2006 over-accrual

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 £165 (2006: £253) for the year ending 31 March 2007. Expenses were reimbursed for one (2006: two) Trustees. HRP does not provide liability insurance for Trustees.

Notes to the Consolidated Accounts for the year ended 31 March 2007

7. Staff numbers and costs

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

	2007 Total no. of staff	2006 Total no. of staff
Fundraising	6	6
Retail activities	90	89
Other commercial activities	17	13
<i>Give the palaces the care they deserve</i>	125	124
<i>Transform the way visitors explore their story:</i>		
Public access	273	277
Interpretation and learning	73	66
<i>Have a wider impact in the world</i>	15	15
Governance	4	5
Support costs	51	50
Total	654	645

The aggregate payroll costs of these staff were as follows:

	2007 £000	2006 £000
Wages and salaries	16,895	15,960
Loss of office	23	167
Social security costs	1,475	1,388
Pension costs	2,218	2,142
Total	20,611	19,657
Agency staff	427	370
Total	21,038	20,027

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

	2007 No. of staff	2006 No. of staff
£60,001 to £70,000	3	2
£70,001 to £80,000	2	1
£80,001 to £90,000	-	-
£90,001 to £100,000	1	2
£100,001 to £110,000	4	2
£110,001 to £120,000	-	2

There were ten staff during the year earning in excess of £60,000 (2006: nine), six were in a defined benefit scheme (2006: six) and three were in a defined contribution scheme (2006: three) where the employer contributions were £19,996 (2006: £19,567).

The aggregate emoluments of the Chief Executive were as follows:

	Age	Remuneration	Pension Contributions made to Group Personal Pension Plan
Michael Day	54	£133,092	£10,094

The emoluments of the Chief Executive in 2005/6 totalled £133,341 (excluding pension benefits).

Notes to the Consolidated Accounts for the year ended 31 March 2007

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 2007 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary were:

	At 31 March 2007	At 31 March 2006
Rate of increase in salaries	4.4%	3.9%
Rate of increase in pensions in payment where LPI applies (LPI - Limited Price Indexation)	3.1%	3.0%
Discount rate	5.3%	5.0%
Inflation assumption	3.1%	3.0%
Loading for mortality improvements	0.0%	5.25%
Pre and post-retirement mortality table	PA92 medium cohort	PA92 c2020

(PA - Pension Annuitant Tables)

The assets in the scheme and the expected return were:

	Long-term rate of return expected at 31 March 2007	Value at 31 March 2007 £000	Long-term rate of return expected at 31 March 2006	Value at 31 March 2006 £000
Equities	6.6%	21,481	6.2%	21,012
Bonds	4.6%	8,881	4.2%	5,522
Other (property, cash, etc)	4.6%	160	4.2%	385
Total market value of assets		30,522		26,919
Present value of scheme liabilities		(32,979)		(29,994)
Net pension liability		(2,457)		(3,025)

The mortality assumptions used in the preparation of this statement assume that if members had retired, aged 60, during the year then the male members would live a further 26.7 years (2006 - 25.8 years) and female members a further 29.6 years (2006 - 28.9 years).

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

Notes to the Consolidated Accounts for the year ended 31 March 2007

8. Retirement benefits

a) Defined Benefit Pension Scheme (continued)

Analysis of the amount charged to resources expended in the SOFA

	2007 £000	2006 £000
Current service cost	1,950	1,922

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

	2007 £000	2006 £000
Expected return on pension scheme assets	1,607	1,259
Interest on pension scheme liabilities	(1,526)	(1,325)
Net return	81	(66)

Analysis of amount recognised in funds movement

	2007 £000	2006 £000
Actual return less expected return on pension scheme assets	31	4,007
Experience (loss)/gain arising on the scheme liabilities	(533)	119
Changes in assumptions underlying the present value of the scheme liabilities	183	(3,419)
Actuarial (loss)/gain	(319)	707

Movement in funds during the year

	2007 £000	2006 £000
Deficit in scheme at beginning of the year	(3,025)	(4,641)
Movement in year:		
Current service cost	(1,950)	(1,922)
Contributions	2,756	2,897
Other finance costs	81	(66)
Actuarial (loss)/gain	(319)	707
Deficit in scheme at end of the year	(2,457)	(3,025)

Notes to the Consolidated Accounts for the year ended 31 March 2007

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 2004 actuarial valuation the Employer agreed a contribution rate of 22.7% (including 1.5% payable by members). The Employer also pays a 1.8% contribution (prior to 1 December 2006 1.2%) 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.

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

	2007 £000	2006 £000	2005 £000	2004 £000
Difference between the expected and actual return on scheme assets:				
Amount	31	4,007	984	2,056
Percentage of scheme assets	0%	15%	5%	14%
Experience (loss)/gain on scheme liabilities:				
Amount	(533)	119	806	41
Percentage of the present value of the scheme liabilities	(2%)	0%	3%	0%
Changes in assumptions underlying the present value of the scheme liabilities:				
Amount	183	(3,419)	(887)	(876)
Percentage of the present value of the scheme liabilities	1%	(11%)	(4%)	(4%)
Total actuarial (loss)/gain				
Amount	(319)	707	903	1,221
Percentage of the present value of the scheme liabilities	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 £326,754 (2006 £251,303), with £29,383 outstanding contributions at the balance sheet date (2006 £23,712).

Notes to the Consolidated Accounts for the year ended 31 March 2007

9. Intangible fixed assets

	Software licences £000
Cost	
Balance as at 1 April 2006	195
Additions	52
Disposals	-
Balance as at 31 March 2007	247
Accumulated depreciation	
Balance as at 1 April 2006	89
Charge for the year	43
Disposals	-
Balance as at 31 March 2007	132
Net book value as at 31 March 2007	115
As at 1 April 2006	106

The net book value as at 31 March 2007 represents intangible fixed assets used for

	£000
Costs of generating funds	
Fundraising	1
Retail activities	11
Other commercial activities	2
	14
Charitable expenditure	
<i>Give the palaces the care they deserve</i>	15
<i>Transform the way visitors explore their story:</i>	
Public access	53
Interpretation and learning	29
<i>Have a wider impact in the world</i>	2
Governance costs	2
	115

Notes to the Consolidated Accounts for the year ended 31 March 2007

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
Cost							
Balance as at 1 April 2006	8,380	3,336	2,760	534	3,376	1,048	19,434
Additions	1,158	284	90	16	153	490	2,191
Disposals	(103)	(46)	(303)	(33)	(42)	(132)	(659)
Transfers to heritage assets	-	-	-	-	-	(83)	(83)
Transfers within tangible assets	191	270	261	-	117	(839)	-
Balance as at 31 March 2007	9,626	3,844	2,808	517	3,604	484	20,883
Accumulated depreciation							
Balance as at 1 April 2006	3,595	2,575	2,105	413	1,825	-	10,513
Charge for the year	720	188	163	63	243	-	1,377
Disposals	(103)	(42)	(249)	(33)	(45)	-	(472)
Balance as at 31 March 2007	4,212	2,721	2,019	443	2,023	-	11,418
Net book value as at 31 March 2007	5,414	1,123	789	74	1,581	484	9,465
As at 1 April 2006	4,785	761	655	121	1,551	1,048	8,921
The net book value as at 31 March 2007 represents fixed assets used for							
Costs of generating funds:							
Fundraising			15	1		1	17
Retail activities	882	673	43	11	283	14	1906
Other commercial activities	158	25	23	2		3	211
Charitable expenditure:							
<i>Give the palaces the care they deserve</i>		201	31	19	351	253	855
<i>Transform the way visitors explore their story:</i>							
Public access	3,030	69	325	33	995	55	4507
Interpretation and learning	1,344	155	342	6	(64)	12	1795
<i>Have a wider impact in the world</i>			10	2	16	145	173
Governance costs						1	1
	5,414	1,123	789	74	1,581	484	9,465

Notes to the Consolidated Accounts for the year ended 31 March 2007

11. Heritage assets

	Total £000
Cost and net book value	
Balance as at 1 April 2006	3,011
Additions	256
Transfers from assets in the course of construction	83
Disposals	
Balance as at 31 March 2007	3,350
The net book value as at 31 March 2007 represents heritage assets used for:	
Charitable expenditure	
<i>Transform the way visitors explore their story:</i>	
Interpretation and learning	3,350

12. Debtors

	Group 2007 £000	Trust 2007 £000	Group 2006 £000	Trust 2006 £000
Trade debtors	1,182	635	1,028	645
Amounts due from subsidiary		587	-	714
Other debtors	156	154	584	582
Prepayments and accrued income	1,251	1,048	2,379	2,117
	2,589	2,424	3,991	4,058

Within debtors nil is due after more than one year (2006: nil).

13. Creditors: amounts falling due within one year

	Group 2007 £000	Trust 2007 £000	Group 2006 £000	Trust 2006 £000
Trade creditors	840	661	1,426	1,285
Taxation and social security	632	474	719	459
Other creditors	335	260	558	440
Accruals	5,295	4,899	5,491	5,231
Deferred income	1,399	665	1,212	615
	8,501	6,959	9,406	8,030

Within creditors nil is due after more than one year (2006 nil).

Notes to the Consolidated Accounts for the year ended 31 March 2007

14. Provision for liabilities and charges

	Claims	Total
	£000	£000
Balance as at 1 April 2006	80	80
Amounts charged in year	(41)	(41)
Amounts released in year	(39)	(39)
New provisions in year	11	11
Balance as at 31 March 2007	11	11

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

15 Financial commitments under operating leases

	Group 2007 £000	Trust 2007 £000	Group 2006 £000	Trust 2006 £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	9	8	11	-
Between two to five years	362	360	295	289
Total payable within one year	580	537	515	458

16. Capital commitments

	Group 2007 £000	Trust 2007 £000	Group 2006 £000	Trust 2006 £000
Contracted capital commitments as at 31 March 2007, for which no provision has been made in the accounts:				
Contracted	1,577	1,577	1,970	1,970
Authorised	1,698	1,698	2,795	2,795
	3,275	3,275	4,765	4,765

Commitments include nil (2006: £1,021,000) 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 5.

Notes to the Consolidated Accounts for the year ended 31 March 2007

19. Related party transactions

This note lists material transactions with other entities in which either Trustees or employees of HRP 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	2007 £000	2006 £000	Detail of transaction
HRH The Prince of Wales is President of the Prince's Trust	HM The Queen	127 (nil)	9 (nil)	Charges made by HRPE to The Prince's Trust for a function held at the Tower of London
Royal Collection Trust (RCT) and Royal Collection Enterprises Limited (RCEL) which is a wholly owned subsidiary of RCT.	Sir Alan Reid (Trustee of HRP) is a Trustee of RCT and is the Chairman of RCEL. Sir Hugh Roberts (Trustee of HRP) is a Director of RCEL.	11 (nil)	13 (nil)	Charges made by HRPE to RCT for cleaning and conservation of tapestries and historic garments.
		14 (nil)	23 (3)	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.
		24 (24)	16 (16)	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.	102 (70)	115 (25)	Payment by HRP to RA for goods and services provided at HM Tower of London.
		5 (nil)	7 (nil)	Recovery of costs from RA for maintenance, goods and services provided by HRP at HM Tower of London.
		20 (nil)	24 (nil)	Purchases by HRPE of goods for resale.
The Attingham Trust	Sir Hugh Roberts is a member of the Council of the Attingham Trust	2 (nil)	Nil (nil)	Payment by HRP for training

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.