



Historic Royal Palaces is the charity that looks after:

**Tower of London**  
**Hampton Court Palace**  
**Banqueting House**  
**Kensington Palace**  
**Kew Palace**  
**Hillsborough Castle**

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

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

# FINANCIAL STATEMENTS

## AS AT 31 MARCH 2016



# Trustees' Report

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## *Trustees*

Rupert Gavin (Chairman) (since 5 May 2015)  
Charles Mackay CBE (Chairman) (until 4 May 2015)  
Sir Alan Reid GCVO (Deputy Chairman) (until 31 July 2015)  
Dawn Austwick OBE (until 31 March 2016)  
Zeinab Badawi (since 1 April 2016)  
Professor Sir David Cannadine (since 19 May 2015)  
Bruce Carnegie-Brown  
Liz Cleaver  
General the Lord Dannatt GCB CBE MC DL  
Val Gooding CBE  
Jane Kennedy (since 19 May 2015)  
Jonathan Marsden CVO FSA  
Sir Trevor McDonald OBE (until 31 March 2016)  
Carole Souter CBE (since 1 May 2016)  
Mike Stevens CVO (since 1 August 2015)  
M Louise Wilson FRSA

## *Executive Board*

Michael Day CVO (*Chief Executive and Accounting Officer*)  
John Barnes  
Tania Fitzgerald (until 24 January 2016)  
Gina George  
Paul Gray  
Richard Harrold OBE  
Graham Josephs  
Jane McKeown (interim)  
Daniel Wolfe

## *Registered Office*

Hampton Court Palace  
Surrey KT8 9AU

## *Auditors of the Group*

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

## *Bankers*

Barclays Bank plc  
1 Churchill Place  
Canary Wharf  
London E14 5HP

## *Solicitors*

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

## *Historic Royal Palaces: 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 Culture, Media and Sport to manage the five London 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 the Royal Kitchens, Queen Charlotte's Cottage and the Great Pagoda. These palaces are owned by HM The Queen in right of Crown.

HRP is also contracted by the Secretary of State for Northern Ireland to manage Hillsborough Castle in Northern Ireland. The Castle is owned by the Government.

HRP is a Public Corporation but receives no public funding - all costs are met by self-generated income. HRP is governed by a Board of Trustees, all of whom are non-executive. The Chief Executive is accountable to the Board of Trustees.

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

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

- to manage, conserve, renovate, repair, maintain and improve the palaces to a high standard consistent with their status as buildings of royal, 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 a financially independent charity and 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

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

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

We are guardians of six of the nation's most important historic sites. One is a World Heritage Site and another is part of a World Heritage Site, four are Scheduled Ancient Monuments, and five are Grade I listed buildings. Our responsibility covers the fabric of the buildings, interiors and contents, estates and landscapes, and the stories and traditions associated with these famous sites. We are also responsible for developing the specialist skills of our staff. The idea of 'Guardianship' for us means to care for, look after and keep secure, and also to nurture, develop and reach potential. Conserving in the state we have inherited them is not enough; we aim to hand them on to future generations in a better state. The scale of the future challenge is set out in the State of the Estate and the State of the Interiors reports, and the Gardens Conservation Management Plans. The top ten conservation projects in each of these areas are built into our forward plans.

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

The central idea of visitors exploring their story derives from our Cause. HRP believes history, beauty and art have the power to inspire, and that everyone wants to understand more of the world they live in. People make their own 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. Delighting our customers is also critical to our future financial prosperity; we depend on this income stream for the majority of our revenue. We are engaged in an extensive programme of change and development – in the way we present the palaces, help people explore stories, provide services and engage people's senses.

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

Our Cause defines an ambition to 'help everyone explore the story of how monarchs and people have shaped society...' Our priority is to broaden our reach, build awareness, support and influence for HRP as widely as possible in all our communication and public-facing activities. We have an ambitious Learning and Engagement Strategy that delivers programmes on and off site to hundreds of thousands of learners. We are investing significantly in HRP's digital capability to expand our reach further in the future.

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

We continue to drive culture change and performance improvement in line with our Cause and performance framework: Putting the customer first; Knowing our stuff; Doing it well, and Working together. We continue to give particular attention to increasing the ethnic diversity of our workforce, promoting further efficiency, managing poor performance & attendance and improving leadership capability.

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

Financial sustainability for HRP depends on the success of key income streams to fund our Charter and Cause objectives. This is supported by a reserves policy that aims to keep free reserves at a modest level so as to allow the maximum resource spend for our charitable objectives, and to designate any annual surpluses for projects. Our main income streams are from visitors, retail, catering, functions & events, and fundraising. As a self-supporting charity, we charge admission fees to visitors to our palaces and for our education service. These are reviewed annually and benchmarked to ensure they remain affordable to the general public. We have concessionary prices for children, family groups, those over 60 and full time students, in addition to offers such as the Tesco voucher scheme, to widen our appeal to as many audiences as possible. HRP membership provides a significant discount for regular visitors who wish to support our work in that way. We provide special free programmes for local communities around our palaces and free content through our website and other media channels for people who do not visit the palaces in person.

# Trustees' Report (continued)

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## Achievements and Performance

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

- We have continued our programme of major conservation projects in buildings, interiors & contents, estates and landscapes.
- Our entire built estate was re-surveyed between 2012 and 2013, and results show that 96 per cent of the estate is in a 'good' or 'fair' condition. The survey translates into a ten-year conservation plan across all sites.
- This year we completed the review of our architectural and archaeological collections, which are now properly documented for the first time.
- Conservation projects completed at the Tower of London include work to The Queen's House and the Bell Tower. The White Tower steps were also replaced by a new oak structure, made to Norman design and using historic techniques of woodworking and carving. The project offered valuable learning opportunities throughout its various stages.
- The Tower's famous ravens now have new luxury accommodation, as we replaced their 20-year-old huts with airy new cages, designed with the help of avian experts at London Zoo, balancing both the well-being of the ravens and the keen interest of the visitors.
- At Hampton Court Palace, work finished on several major projects: the roofs of the Georgian House and of the Royal Tennis Court, and Base Court masonry.
- Work at the Banqueting House moved into its second phase. Exterior cleaning and conservation of the stonework was completed in December, then scaffolding was erected inside to enable window replacement and asbestos dust and debris removal from behind the famous Rubens ceiling painting, before we reopened in April 2016.
- Hillsborough Castle has received detailed conservation attention for the first time. Working with the new team and specialist conservators in Northern Ireland we have tackled a variety of fascinating challenges, including conserving a working collection of clocks and barometers. We have set a conservation care and protection plan and established a salvage team with the new appointment of an on-site conservator.
- Total spend of £26.8m in the Statement of Financial Activities (SOFA on page 22) represents an increase of 5% from the previous year.

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

- This year we celebrated the extraordinary 500-year history of Hampton Court by revealing the stories of the palace through a series of intriguing, playful and beautiful interventions, family experiences and daily events.
- We offered our visitors the opportunity to immerse themselves in our series of 15 micro 'TimePlays', inspired by real characters and events from Hampton Court's past.
- Another important development has been the integration of programming 'for and by young people' as part of our core family offer. Our first immersive family experience, 'Time Quake', not only attracted over 5,000 people over the May bank holiday, but, in partnership with the Rose Theatre Kingston, we trained 70 aspiring young actors as 'Young Explorer Guides' during the event itself.
- 60 Community group members working with English Touring Opera created and performed a celebratory opera, *Under the Hammerbeam Roof*, while 20 local choirs sang a specially commissioned 'Celebration Song' in Base Court. A new work by Judith Weir, Master of The Queen's Music, was sung during a service of thanksgiving in the Chapel Royal.
- Five magnificent replica carriages lined the West Front, Tudor cookery experts created great feasts in the kitchens. A new 'Highlights' audio tour enchanted visitors with personal stories and previously hidden histories, while digital missions provided a new way for families to explore the palace.
- In February, the first Catholic service in over 450 years was held in the Chapel Royal at Hampton Court Palace.
- The popular *Fashion Rules* exhibition was re-born at Kensington Palace as *Fashion Rules: Restyled*, offering visitors a further opportunity to delve into the era-defining style choices of The Queen, Princess Margaret and Diana, Princess of Wales. The refreshed display continues to

## Trustees' Report (continued)

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explore how these women navigated the fashion 'rules' defined by their royal duties in unique style.

- To mark the occasion of HM The Queen becoming Britain's longest-serving monarch we created a new film installation for Kensington Palace. The free display in the entrance hub compared some of the most iconic images of HM The Queen and Queen Victoria taken at key moments of their reigns, many strikingly similar, emphasising the unchanging nature of the monarch's ceremonial duties.
- The 600th anniversary of the battle of Agincourt was commemorated at the Tower of London by our partners the Royal Armouries, with a dramatic re-creation of the battle in the moat. A daily events programme for families ran over October half-term, while an accompanying exhibition in the White Tower of medieval armour, art, sculpture and music ran from October to January.
- Other initiatives include the 'Time Explorers' app for families, building on the similar app for schools. Two new digital 'missions' were also launched at the Tower in February, which can be either downloaded onto personal devices, or played on loaned iPads.
- We are also taking a fresh approach in our adult programming. 'Nightwatchers' at the Tower was an immersive, after-hours experience that wove current day concerns about state surveillance with stories of Elizabethan spymasters.
- Faced with significant changes in the education sector (in particular to the primary history curriculum) that have impacted on our school admissions, we responded with a plan to diversify our formal education offer. For example, working with local schools, families and community groups at Kensington, 'Curious Stories' is part of a research study into the importance of literacy to improving life chances for all children, particularly the most deprived.
- Total spend of £40.1m across the headings of Public Access and Interpretation & Learning represents an increase of 6% over the previous year (page 22).

### 3. Have wider impact in the world

- We continue to make major investment in the development of learning & engagement, new creative programming across our sites, expanding our domestic market, and how all our work will be enabled digitally in the future. These strategic initiatives are coordinated through a philosophy that we call Audiences First, which has as its overarching objective the expansion of HRP's charitable reach and impact, significantly beyond the c4m visitors we welcome to our sites each year.
- In the third year of our Learning & Engagement strategy, our new approach is really beginning to make its mark with high quality experiences and content specially designed for families. Over the May bank holiday, we unveiled 'Tudors on Tour', the first of our large-scale family festivals, held in Tatton Park, Cheshire. Over 11,000 people attended, many of whom had never visited our sites before.
- At Hampton Court, the 'Movie Maker Mission', in association with Aardman, drew on the artistic, musical, animation and storytelling skills of over 10,000 participants over eight months to cram 500 years of history into a five minute film, shown in a 360° igloo in October, before being shown at Picturehouse cinemas.
- We were delighted that Hampton Court was long-listed in the annual Kids in Museums/Daily Telegraph Family Friendly awards, and also to learn that 'Movie Maker Mission' was shortlisted in the Education Innovation category for the Museums and Heritage Awards.
- The Royal Kitchen Garden at Hampton Court was recognised with a prestigious 'Restoration and Regeneration' award from the British Association of Landscape Industries, while one of the key gardeners on the project, Vikki Cook, won the Alan Titchmarsh 'New Talent Award'.
- There were several nominations and awards for our retail licensees including Briers with its range of baroque-inspired gardening tools and accessories, and Hobbs with a fashion collection inspired by Queen Charlotte's Cottage at Kew.
- Our four salvage teams work closely with other heritage organisations to share best practice and provide support. The Hampton Court salvage team responded to the fire at the National Trust's Clendon Park and the Kensington team provided advice and support following the Battersea Arts Centre fire.
- This year saw the second in our popular children's series, *Rex and the Royal Prisoner*, and our new *Pop-up Kings & Queens* co-published with Walker Books. We also produced *Modern Royal Fashion*, written by our dress curators and *Chocolate Fit for a Queen*, co-

## Trustees' Report (continued)

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published with Ebury Press. More specialist publishing projects included a major Yale monograph on Kensington written by our curators.

- Staff contributed their expertise to a number of films and television programmes about the palaces including BBC's *The One Show* when curator Sally Dixon-Smith spoke about Colonel Blood and his attempt to steal the Crown Jewels and four part *Empire of the Tsars: Romanov Russia with Lucy Worsley* which featured the Tower as part of the story of Peter the Great's visit to London in 1698.

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

- Our bi-annual 2015 staff survey showed very high staff engagement levels. A high percentage of our staff say that they really enjoy working at HRP and many are demonstrating that enthusiasm in their interactions with our visitors.
- Visitor exit surveys carried out in the summer show that people rate 'staff helpfulness and friendliness' very highly at between 1.75-1.85 (on a -2 to +2 scale) for our three main sites. Visitors also rate 'staff knowledge about the site and its history' very highly in comparison to other heritage sites: 9.4-9.6 out of 10 for our three main sites compared to an industry average of 8.9 across all ALVA heritage sites.
- We achieved a major goal when we became the first heritage body in the UK to achieve Independent Research Organisation status under the Arts and Humanities Research Council.
- The conservation team supported the organisation's ambition to increase reach through performance-based activities by designing bespoke training courses for our Learning and Creative Programming teams. Conservators, producers, actors and stage managers worked together to develop conservation-safe ways of delivering new audience events. A new booklet, *Protect and Enjoy* has been published to share our growing expertise in this area.
- We celebrated the 10th anniversary of our volunteer programme this year. We benefitted from an increase of 6% in the number of volunteer hours contributing to our work, which reached a total of 38,632 hours in the year (2015:36,427) and we now have 347 volunteers (2015: 316).
- At Hillsborough Castle, with 20 volunteers now helping, we have volunteers supporting in regular roles across all six of our palaces.
- Unusual volunteering opportunities this year included six of our regular volunteers travelling to Cheshire to help 23 local volunteers at the 'Tudors on Tour' family festival and 130 volunteers supporting the major incident exercise at the Tower.

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

- After last year's record, the number of visitors that spent a day out at one of our palaces in 2015/16 decreased by 7% to 3.97m, still our third best ever year.
- Admissions income was £55.7m – 64% of total income and just under 1% less than 2014/15.
- 37% of our visitors (1.43 million) came through travel trade operators, agencies or groups and sales through the travel trade reached another record at over £18.5m, 2% higher than 2014/15.
- Income from retail, functions & events, catering & other concessions, and sponsorship totalled £24.4m, down 9% from £26.9m in 2014/15.
- We refurbished the White Tower shop at the Tower at the end of the year and transformed the Kitchen shop at Hampton Court along a 'feasting' theme.
- As we seek to develop the overall catering experience we increased capacity by opening up the outside space in Fountain Court at Hampton Court and added a summer 'pop-up' café at the Tower.
- Fundraising has had another successful year; attracting generous donations for our major projects. Income from grants and donations in the year reached £6m, including restricted funds of £3.7m. In the third year of our major five-year fundraising campaign, 'The Next Chapter in our Story', we are well on the way to achieving our target of raising £30m by 2018.
- Membership makes a difference to everything that we do, and the scheme has continued its steady rise in popularity and reach. There are now 85,000 members (2015: 80,000) and our programme of Members-only events has never been so popular. Our loyal Patrons have also made an important contribution and gained a special insight into our work through private visits and events.

## Trustees' Report (continued)

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- At Kensington Palace, we were proud to maintain our association with Estée Lauder Companies, whose sponsorship continued with *Fashion Rules Restyled*. The support of our corporate partners and corporate members is vital for so many areas of our work, from exhibitions to learning and engagement, and we were delighted that so many chose to renew their support during the year.
- We successfully secured a Round One Pass from the Heritage Lottery Fund, bringing us a step closer to achieving our ambitions for Hillsborough Castle and Gardens. We received funding to develop our plans to open up the site, ready to welcome up to 200,000 visitors each year by 2019. We will now proceed to the next stage of the application process to secure the full £4.95m grant.
- We were also delighted to receive a £2m donation from the Garfield Weston Foundation, the largest charitable donation received in support of our plans for Hillsborough Castle so far.
- All of this activity was achieved within budgeted expenditure and we have maintained our free reserves target of £5m.
- The strong financial performance in the year has meant that we are able to designate more funds towards the cost of projects within our ambitious strategy for the next three years and beyond.

Our performance is measured by the Secretary of State by submission of the annual Strategic Plan and by this report.

### Future Plans

In 2016/17 we will continue to implement the Audiences First work (described on page 15) in the areas of Learning and Engagement, Digital, and Creative Programming and Interpretation. Our priority major projects include:

- Progressing the plans at Hillsborough, including building the new car park, gaining permissions for the new visitor facilities and submitting a bid for Round 2 Heritage Lottery Funding;
- Celebrating the National Year of the Garden at Hampton Court with the opening of the *Empress and the Gardener* exhibition and the opening by HRH The Duchess of Cambridge of The Magic Garden for children;
- Improving the entry at the Tower of London
- Beginning the conservation of the Great Pagoda at Kew
- Undertaking the second phase of the conservation and representation of the Kings State Apartments at Kensington.

### 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 thus enable HRP to make long-term commitments to projects. 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.

Following this detailed review the target level for free reserves remains at £5 million and this has been maintained at March 2016.



## Trustees' Report (continued)

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

### **Restricted funds (£6.4m)**

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

### **Unrestricted funds (£35.6m)**

These are funds that are expendable at the discretion of the Trustees in furtherance of the charity's objects. **Free reserves (£5m)** are that part of the unrestricted fund that are not held as fixed assets or designated for other purposes:

- **Fixed asset fund (£13.5m)**

A permanent designated fund is matched to fixed assets, as this cannot be quickly utilised to realise cash in the event this is required. The part of the general fund represented by fixed assets is therefore excluded from free reserves, as generally a charity could not dispose of all or the majority of these assets and continue its operations as a going concern.

- **Designated funds (£20.4m)**

Funds have been designated out of general funds to protect long-term commitments to major projects. £4.4m has been designated to complete projects in 2016/17 that were underway in 2015/16. £6.3m has been designated to support our plans to develop Hillsborough Castle over the next three years. £3.5m is designated for development work at the Tower of London, and the entry arrangements in particular. £1.9m has been designated towards the work we are undertaking over the next two years to the Kew Pagoda. £1.5m is set aside for the third year of our work to implement our Digital strategy, and at Kensington Palace, funds of £1.4m have been set aside for works on the Kings Sate Apartments.

- **Pension plan (£3.3m deficit)**

This liability does not result in any immediate requirement to pay this amount to the pension scheme, and ongoing cash contributions into the scheme are met through budgeted income, therefore there is no requirement to ring fence an amount equal to the full deficit from other reserves to cover this liability.

The defined benefit pension scheme was last valued for funding purposes as at 31 March 2015. This valuation recorded a decrease in the deficit, from £5.9m at 1 April 2012 to £1.1m at 31 March 2015. As a result of the valuation, it was agreed with the pension scheme trustees that HRP need make no further deficit reduction payments from 1 April 2016 because the investment outperformance assumed in the recovery plan was expected to eliminate the deficit by 30 June 2016 (for the year ended 31 March 2016 deficit reduction payments of £395k were paid). The ongoing employer contribution to the scheme for future service accrual has increased from 27.5% to 31.8% of pensionable earnings from 1 April 2016. HRP also meets the expenses of the scheme and levies to the Pension Protection Fund.

The pension liability at 31 March 2016, calculated for accounting purposes under FRS102, is £3.3 million (March 2015: £6.9 million). Details of the retirement benefit scheme are disclosed in Note 8 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 on equal opportunities, disability and harassment have been developed and communicated to all staff. General training on these policy areas is provided to staff and specific training is provided in areas such as recruitment and performance appraisals. Equality policies and practices are regularly monitored and action plans developed, if appropriate, to deal with any specific issues. In addition, we have published a Diversity Strategy and Action Plan and are making progress in increasing the diversity of our workforce.

## Trustees' Report (continued)

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### Consultation with, and provision of information to, employees

The Trustees and Directors encourage widespread consultation and exchange of information at all levels of the organisation using a range of different communication mechanisms. To facilitate information flows and discussion between the organisation and Trade Union representatives, partnership meetings are regularly held both centrally and at each palace. In addition, staff are kept up-to-date on the organisation's progress through a cascade briefing *News from the Executive Board*, the intranet, notice boards, team briefings and a staff newsletter, *Our Story*.

### Investment policy

HRP's investment policy is as follows:

1. Capital preservation is the priority
2. Surplus funds are invested on the money market in the UK
3. No more than 50% is invested in any one institution, except for deposits with the Bank of England
4. Up to £10m may be invested in a fixed income portfolio with an average maturity date of no more than 3 years.
5. Any investments that might create adverse public profile by association for Historic Royal Palaces will be considered carefully and might be refused.

The fixed income portfolio has the objective of outperforming the returns from money market deposits by achieving a return of at least 2%, which has been achieved during the year.

### 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 2015/16 65% of supplier invoices were paid within 30 days of date of invoice (68% in 2014/15) and 78% within 40 days (78% in 2014/15). This payment performance has not been adjusted for invoices which have been delayed for payment due to a query with the supplier.

### Related parties

Details of material dealings with any related parties are set out in Note 23.

### Environmental Sustainability

Conservation is at the heart of HRP's mission, so managing the estate with as little environmental impact as possible is important to us. We strive to embed sustainability in HRP's work culture by launching initiatives that encourage good sustainability behaviours with staff at induction and by ensuring that sustainability thinking forms part of project planning mandates and is delivered at a local level through our health, safety and environment committee meetings.

Energy management in historic buildings is challenging. Our organisation's ambition translates into increasing activities for visitors and expanding spaces available to the public and staff, which in turn make energy reduction more difficult. Nevertheless we continue to implement and explore a number of initiatives to manage our consumption of electricity, gas and water more efficiently. In 15/16 our work has included:

- At the Tower: electricity sub-meter monitoring to target areas of consumption; improved electricity shut down procedures at nights and weekends; upgraded lighting controls; LED lights installed in the White Tower and Chapel of St Peter ad Vincula; grey water irrigation of the lawns in the moat and in some of the public toilets; reduction in tap water pressure;
- At Hampton Court: completion of draught proofing of historic windows; rain and river water is used for the majority of irrigation.
- At Kensington: introduction of sensor mixer taps and low flush toilets in all public areas;
- At Hillsborough: low carbon feasibility report commissioned.

## Trustees' Report (continued)

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We continue to focus on waste management and increased re-use and recycling. This has resulted in most palaces reaching 100% waste recycling (45%) or energy from waste (55%) this year. No waste is sent to landfill. The following initiatives have contributed to this achievement:

- Specific cardboard collection from the retail shops and compacting at the retail warehouse; cardboard bailing introduced this year at the Tower;
- Used computer, photocopier and printer cartridges are recycled;
- Waste hubs introduced in offices to aid segregation of waste at source;
- The Gardens and Estates team continue to recycle 95% of their green waste, which is shredded and never taken off site.

We are committed to the sustainable management of habitats of wildlife conservation importance and were delighted that Natural England designated Home Park as a Site of Special Scientific Interest in May 2015. A five year biodiversity strategy plan has been drawn up for Hampton Court, providing a review of five main ecological character areas relating to the estate. HRP works in partnership with a number of organisations, including The Thames Landscape Strategy, Zoological Society of London, Surbiton and District Bird Watching Society, and The Royal Parks Agency.

## Report of the Remuneration Committee

### Membership

The membership of the Remuneration Committee during 2015/16 consisted of four Trustees. General the Lord Dannatt (Chairman), Liz Cleaver, Jonathan Marsden, and Louise Wilson all served on the Committee throughout the year.

### Policy statement

The remit of the Remuneration Committee is governed by the legal framework of HRP as set out in the Royal Charter. In establishing the level of remuneration for each Director, the Remuneration Committee considers the guidelines laid down by the Combined Code and HM Treasury and has a remuneration policy similar to comparable and competing organisations. This policy aims to ensure that remuneration packages are in line with the general market practice and consistent with recruiting and retaining Directors of the highest calibre.

Members of the Board of Trustees receive no remuneration. However, they are entitled to claim expenses and to make charges if instructed by the Charity to apply their specialist skills or knowledge. Details are set out in Note 6 to the accounts.

### Review of activity during the year

At the Annual Salary Review in August 2015, all Directors received a 2% increase to their basic salaries. This level of increase was in line with the median settlements in the external market and with the settlement awarded to other HRP staff.

In addition, the Directors received a performance-related bonus for the 2014/15 period. These bonuses were awarded consistently with the Directors' performance-related bonus scheme and reflected a very good year for HRP and its Directors. Actual bonus payments were calculated on the basis of the overall performance of the organisation and Directors' individual performance against agreed objectives. Performance-related bonuses for the 2015/16 period have been accrued and will be paid in accordance with the agreed scheme.

During the year the Committee reviewed and approved the Directors' Succession plans, which were subsequently discussed and approved by the main Trustee Board. The Committee also agreed the introduction of a Pension Cash Allowance (to be paid in lieu of employer contributions into the pension scheme) for those staff adversely affected by the reduction of the Life Time Allowance in April 2016.

## Trustees' Report (continued).

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

Rupert Gavin  
*Chairman of the Board of Trustees*  
20 June 2016

Hampton Court Palace  
Surrey  
KT8 9AU

# Governance Statement

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## The Governance framework

Details of the Trustees are given on page 1. The Board consists of a Chairman and eleven Trustees, chosen for their skills and experience. All are non-executive and unpaid.

The Chairman is appointed by HM The Queen on the advice of the Secretary of State. Four Trustees are appointed by HM The Queen, of whom three are ex-officio appointments: The Director of Royal Collection Trust; The Keeper of the Privy Purse; and The Lord Chamberlain. The Lord Chamberlain may choose not to take up his appointment, in which case HM The Queen may appoint someone to take his place, as currently. In June 2015 the Royal Charter was changed to permit the Keeper of the Privy Purse to choose not to serve beyond nine years, in which case the Deputy Keeper of the Privy Purse is appointed by HM The Queen to take his place, as currently. The remaining seven are appointed by the Secretary of State, two of whom are ex-officio; the Constable of the Tower of London and the Chairman of the Campaign Board.

The appointments last initially for three years. Under the Royal Charter, with the exception of ex-officio appointments, Trustees may be appointed for a further two periods of up to three years, subject to review at the end of each period. Third appointments are only made exceptionally.

Trustees are recruited through advertisement, by using existing contacts, by further research and 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 on their responsibilities as a Trustee of both a charity and a public body, and about the organisation.

The Chief Executive is granted a general delegation to act on behalf of the Trustees, except for matters reserved by the Trustees for decision by the Board or its committees. Such matters include approval of strategic plans, annual budgets and major projects, remuneration of the Directors and variation to governing documents.

The Trustees and Chief Executive (as Accounting Officer) are jointly responsible for maintaining a sound system of internal control that:

- supports the achievement of HRP's Cause and Strategy, whilst;
- safeguarding the public funds and assets for which the Accounting Officer is personally responsible, in accordance with the responsibilities assigned in *Managing Public Money*; and
- ensuring compliance with HRP's Management Statement and Financial Memorandum.

There are four sub-committees of the Board:

1. The Audit & Risk Committee formally reports annually to the Board on the adequacy of HRP's arrangements for risk management and internal control. During the year the following Trustees served on the committee: Dawn Austwick (Chair, until 31 March 2016), Mike Stevens (from 1 August 2015, Chair from 1 April 2016) and Val Gooding. Carole Souter was appointed to serve on the committee from 18 May 2016. Anupam Ganguli was a co-opted member of the committee until 11 March 2016.
2. Oversight of investment activities is provided by the Investment Committee, whose remit includes reviewing the balance of risk/return, and the impact of external factors. During the year the committee comprised the following Trustees: Sir Alan Reid (Chair, until 31 July 2015), Charles Mackay (until 4 May 2015), Rupert Gavin (from 5 May 2015, Chair from 1 August 2015), Bruce Carnegie-Brown, Mike Stevens (from 17 November 2015) and two members of the Executive Board: Michael Day and Jane McKeown. William Fall is a co-opted member of the committee (from 1 April 2015).
3. Remuneration policy for the Chief Executive and Directors of HRP is agreed by the Remuneration Committee. The committee was chaired by General the Lord Dannatt. Other Trustees who served on the committee were Liz Cleaver, Jonathan Marsden, and M Louise Wilson.

## Governance Statement (continued)

4. The Nominations Committee reviews Trustee succession and makes recommendations to the Board to ensure the appropriate balance of competencies, skills, experience and diversity on the Trustee Board. During the year the following Trustees served on the committee; Charles Mackay (Chair until 4 May 2015), Rupert Gavin (Chair from 5 May 2015), Sir Alan Reid (until 31 July 2015), General the Lord Dannatt, Dawn Austwick (until 31 March 2016), Val Gooding, and Mike Stevens (from 17 November 2015).

The terms of reference for each committee are agreed by the Board.

The work of the Board is further supported by one outside Committee, the Campaign Board, which brings special expertise on fundraising to HRP. This Board is chaired by Bruce Carnegie-Brown. Sir Trevor McDonald (until 31 March 2016) and M Louise Wilson also served on it. Other Campaign Board members are external people with expertise in this area.

Further Trustee input to HRP's work comes through advisory groups where Trustees bring their expertise and work with members of the Executive Team to advise on particular areas such as major projects.

Attendance at Board and Committee meetings is monitored and discussed with each Trustee as part of the annual Board Effectiveness Review meetings. Attendance at Trustee Board meetings over the year was 83% (2015: 85%), Audit & Risk Committee 73% (2015:82%), Investment Committee 100% (2015: 83%), Remuneration Committee 90% (2015:83%) and Nominations Committee 90% (2015:60%).

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

	Board	Audit & Risk Committee	Investment Committee	Remuneration Committee	Nominations Committee
Rupert Gavin (from 5 May 2015)	7/7		2/2	4/4	2/2
Sir Alan Reid (until 31 July 2015)	3/3				1/1
Dawn Austwick (until 31 March 2016)	6/7	4/4			1/2
Professor Sir David Cannadine (from 19 May 2015)	5/7				
Bruce Carnegie-Brown	5/7		2/2		
Liz Cleaver	5/7			2/4	
General the Lord Dannatt	6/7			4/4	2/2
Val Gooding	6/7	1/4			2/2
Jane Kennedy (from 19 May 2015)	6/7				
Jonathan Marsden	6/7			4/4	
Sir Trevor McDonald (until 31 March 2016)	5/7				
Mike Stevens (from 1 August 2015)	4/4	3/3	2/2		1/1
M Louise Wilson	6/7			4/4	

HRP has a Chief Executive who is accountable to the Board of Trustees, and an Executive Board of seven Directors. The Executive Board's role is to develop and deliver the HRP's Strategy, consistent with its Cause.

## **Governance Statement (continued)**

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### **The Board's performance**

The effectiveness of the Trustee Board and its Committees is formally reviewed each year, and the Chairman holds a discussion with each Trustee.

The meetings between the Chairman and each Trustee also cover the performance of those individual Trustees and feedback on the Chairman's own performance is sought.

The final part of the effectiveness review process is a short report summarising the views of the Executive Board on the way the Trustee Board functions and its working relationship with the Executive.

Each year the Chairman produces a report covering all aspects of Board effectiveness, based on the process outlined above, updating the position on actions agreed the previous year and identifying actions to take forward in the current year. This report and its findings are discussed annually and actions agreed at a Board meeting. A full review and discussion with each Trustee was carried out in February/March 2016.

The Chairman concluded that effectiveness remained at a high level. Some recommendations for further improvement were made and agreed at the Board meeting in May 2016.

### **Highlights of board committee reports**

The Trustee Board meets seven times a year. Each Board meeting agenda follows the same core structure which is; strategic development, monitoring performance, reports from subcommittees, and procedural matters including projects & expenditure and organisation & governance. Of the seven meetings, five are used to focus on each of the five strategic aims (see page 3). Of the two remaining meetings, one is to review and approve the updated three-year Strategic Plan and Annual Operating Plan & Budget, and the final meeting is for Trustees to approve the Annual Review and Annual Report & Accounts.

Minutes of Trustees meetings are published on our website once approved by the Board.

At the start of each annual strategic planning process, Trustees hold a separate meeting, attended by the Executive Board, to discuss strategy and to inform the planning process. This meeting is not formally minuted and therefore the output is not published.

The financial performance of the organisation is reviewed at each Trustee meeting through a summary management information pack that reports key aspects of financial performance but also key non-financial organisational performance indicators, and is supported by commentary explaining variances and highlighting issues requiring attention or action. Updates on major projects are also provided at each meeting.

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

The scheme for delegating authority reserves a number of matters for decision by Trustees. These matters are considered at Board meetings and include approval of expenditure above a certain limit. Variations to budgeted approved expenditure of more than 10% on any project are also referred to the Board for further approval. The threshold for approval of projects and contracts at the Board is £750,000 excluding VAT, although projects that may be perceived as novel or contentious below this limit, and anything out of line with the agreed budget, will still be brought to Trustees' attention.

During 2015/16 the Board of Trustees, working with the Executive Board, developed and agreed a new Statement of Intent to 2025. The most significant decision taken during the year, this sets eight principal goals that define HRP's vision for the next decade.

A key decision taken by the Board during 2015/16 was the endorsement of the Stage 1 funding application to the Heritage Lottery Fund for our plans for the development of Hillsborough Castle.

## Governance Statement (continued)

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Investment in projects approved in the year included security secondary glazing at the Banqueting House. There was agreement in principle to explore options to take over management responsibility for the Courthouse and Fort at Hillsborough Castle and to grant a lease over the sub-basement of the Vaults on Tower Hill. Trustees approved the Banqueting House Conservation Management Plan.

Trustees considered progress through strategic updates on Development, the work of the Curatorial team and on our “Audiences First” work, designed to meet its objectives by 2018/19, comprising : the Learning & Engagement Strategy to transform the scale and impact of learning and engagement at HRP, and our capacity to deliver it; the Digital Strategy that will transform the way we engage with our audiences and the approach to Creative Programming and Interpretation.

Audit & Risk Committee agendas are similarly structured, considering matters of risk management, the external audit and internal audit plans and progress. Progress with all major projects is reported at each meeting using red/amber/green indicators to highlight the status of each project. The committee met four times in the year to March 2016 and, in addition to its normal business, reviewed HRP’s position on buildings insurance and a proposal to streamline the risk management and reporting process.

The Investment Committee met in November 2015 and February 2016. The committee reviewed HRP’s investments at each meeting. The committee also gave its view to the Pension Scheme Trustees on scheme investment strategy.

HRP’s second major fundraising campaign has the objective of raising £30m of income over five years, ending March 2018. The Campaign Board supported the achievement of 73% of this total received and pledged by the end of 15/16.

### Corporate governance

The five London palaces in HRP’s care are owned by HM The Queen “in right of Crown” and the Government is responsible for their management. HRP was established by Royal Charter in 1998 and the Royal Charter Body obtained registration as a charity and entered into a contract with the Secretary of State for Culture, Media and Sport to manage the palaces on his behalf. HRP was reclassified as a Public Corporation on 1st April 2005.

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

HRP’s governance reflects this structure. We are directly accountable to the Charity Commission through the Chairman and Trustees but also accountable to Government through the Chief Executive (as Accounting Officer). The contract with Government includes a management statement and a financial memorandum with which we comply.

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

HRP is only obliged to comply with relevant aspects of the Corporate Governance Code and we comply with the elements that are relevant to us as a public corporation and a charity. HRP is also subject to the Freedom of Information Act.

### Quality of the data

The structured approach to board meetings ensures that all aspects of HRP’s performance are reviewed regularly and to an appropriate level.



## Governance Statement (continued)

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

### Risk assessment

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 & 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 2016 and up to the date of approval of the Annual Review and Accounts, and accords with Treasury guidance.

Audit & Risk is responsible for the ongoing examination of and the reporting on the adequacy and effectiveness of HRP's risk management process. The Head of Audit & Risk provides an annual report to the Chief Executive Officer (CEO)/Accounting Officer and the Audit & Risk Committee on the adequacy and effectiveness of the risk management process, internal control and corporate governance in the year. Her opinion for the year to March 2016 was that HRP has a good framework of governance, risk management and control which is sufficiently well embedded in most areas to support the achievement of HRP's objectives.

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

- Internal Audit takes a risk-based approach to audits and operates in compliance with Public Sector 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 & Risk Committee;
- The organisation has a project assessment and approval process which requires risk assessments to be done on all major projects;
- A fraud risk profile is updated annually by Directors and reviewed by the Audit & Risk Committee;
- New activities and changes to existing processes are routinely reviewed to ensure that adequate controls are in place;
- The Security Adviser provides an annual internal and external security threat analysis which is reported to the Audit & Risk Committee, with an Executive Summary reported to the Board;
- Regular reviews are made of health, safety & environmental risks, and of fire risks and emergency planning and the implementation of related policies and procedures. Annual reports are provided to the Audit & Risk Committee by the Advisers for these areas, with an Executive Summary reported to the Board;
- The Finance Director has been appointed Senior Information Risk Owner, and takes responsibility for the management of information risk, supported by Information Asset Owners;
- HRP has an agreement with the Communication Electronic Security Group that where possible HRP will comply with industry best practices and the spirit of the Security Policy Framework. HRP is a self-assessed Payment Card Industry Data Security Standard Level C organisation that is able to attest to V2 compliance and is now working towards successful attestation of the new V3 PCI standard. Appointed Departmental Information Asset Owners track their department's repositories of sensitive data (up to OFFICIAL- SENSITIVE).
- All staff are made aware of the Data Protection Act when they join the organisation. In addition, staff receive specific training on areas relevant to their roles and are regularly reminded of the need for vigilance in the handling of all forms of data, particularly personal and financial information.

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

## Governance Statement (continued)

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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);
- 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 operational risks in their areas.

The Audit & Risk Committee is responsible for reviewing management's mechanisms for the assessment and management of risk, the planned activity of external and internal audit and the results of their work, the adequacy of management's responses to issues identified by audit activity and the adequacy of assurances relating to corporate governance. In line with best practice, the Committee publishes an annual report on its work for the Board of Trustees.

At 31 March 2016, HRP had one 'red' status risk on the risk register:

- a major unpredictable event that shifts visitor/trading activity significantly or has significant cost implications. This risk has ongoing 'red' status due to the potential scale of impact and the continuing possibility of an event (e.g. terrorist activity) that would have such impact. The organisation has a Major Incident Plan and an operational/financial contingency plan which covers the response in the event of such an incident.

Three risks were considered to remain 'amber' at the year-end:

- Failure to successfully deliver key projects – due to the range and complexity of some projects;
- Hillsborough – failure to achieve the year-five 'future operating model' (as set out in a paper considered by Trustees in July 2015) – due to the complexity and volume of work to be done;
- Information systems - failure of key systems that inhibit our ability to operate – as we are still exposed to prolonged recovery times for some key systems.

One risk judged to have been 'amber' at March 2015 is now judged to have returned to green:

- Not making Learning live at the heart of our cause and be relevant to broad and diverse audiences – the long term strategy review was discussed and endorsed by Trustees in January 2016

Risks for the delivery of the 2016/17 annual operating plan include a weakening of the Euro against sterling and pressure on real incomes in parts of the UK, which may affect income generating areas of HRP's work. The ever-present terrorism risk, and political instability in certain parts of the world also present a risk to the delivery of our plan. Financial contingency plans are in place to mitigate the impact of these risks, should they crystallise, such as the requirement to deliver a surplus to act as a contingency in the budget for the year.

Some of the improvements to the management of risk during the year include:

- HRP's Strategic Plan has been updated for the three years to March 2019. This also involved identifying key strategic risks and opportunities for each department;
- The Statement of Intent, setting out demanding organisational ambitions, was updated to 2025, with associated goals to track delivery;
- This was the first year of operation of the restructured Audit and Risk department, bringing together Internal audit and specialist risk advisers on Fire & emergency planning, Health, safety & the environment and Security and resulting in a more integrated and objective approach to risk assurance. In keeping with this restructuring, their Annual Reports are now made to the Audit & Risk Committee, with Executive Summaries reported to the Board;

## Governance Statement (continued)

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- The risk management framework has been aligned with the Institute of Internal Auditors Three Lines of Defence model and a programme of change has been started to improve the corporate and departmental risk registers and annual reporting process;
- Our outsourced internal auditors were used for three audits requiring particular specialist knowledge;
- The five-yearly external quality review of HRP's internal audit service was carried out during 2013/14 and only one of the nine actions resulting from this now remains to complete, in 16/17;
- The fire and emergency planning adviser was able to conclude at the year end that HRP achieves a good standard of compliance with fire safety legislation and the protection of historic buildings and collections from fire;
- An audit of HRP's major incident plan and business continuity arrangements took place and we hosted London's first large scale emergency services exercise in January 2016 at the Tower of London;
- Policies updated included that covering "hot work" permits;
- The health, safety and environment adviser was able to conclude that the management of health and safety and environmental legislation in HRP remains satisfactory;
- Health, safety and environment training modules, compliance management and policies were reviewed and recommendations for improvement made;
- Policies updated included Asbestos Management and Provision of First Aid;
- The security adviser concluded that the general standard of security at HRP is good. Risk management mechanisms are in place to identify shortcomings and implement improvements to identified risks and threats;
- Information Asset Owner training was delivered by the National Archives and Data Protection training was included as one of the new online training modules;
- There have been no incidents of data loss in the year.

### Review of Effectiveness

The Trustees and Accounting Officer have responsibility for reviewing the effectiveness of the system of internal control. The review 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 through the mechanisms set out in the previous section. A plan to address any weaknesses and ensure continuous improvement of the system is in place.

### Significant internal control issues

No significant internal control issues have arisen during the course of 2015/16.

Rupert Gavin  
Chairman of the Board of Trustees  
20 June 2016

Michael Day CVO  
Chief Executive and Accounting Officer

# Statement of Responsibility

## Statement of Trustees' responsibilities

Law applicable to incorporated charities in England and Wales requires the Trustees of HRP to prepare (or have prepared) financial statements for each financial year that give a true and fair view of the state of affairs of the Charity and the Group and of their financial activities during the year. In preparing those financial statements, the Trustees are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any material departures being disclosed and explained in the financial statements;
- ensure that the financial statements are prepared on the going concern basis unless it is inappropriate to assume that the Charity and the Group will continue in operation.

The Trustees are required to follow the Accounts Direction issued by the Secretary of State for Culture, Media and Sport, and are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Charity and which enable them to ensure that the financial statements comply with the Charities regulations and relevant Generally Accepted Accounting Practice. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Rupert Gavin  
Chairman of the Board of Trustees  
20 June 2016

## 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 Charity. His responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in *Managing Public Money* published by HM Treasury. He is also required to follow the Accounts Direction issued by the Secretary of State for Culture, Media and Sport.

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

Michael Day CVO  
Chief Executive and Accounting Officer  
20 June 2016

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

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I have audited the financial statements of Historic Royal Palaces for the year ended 31 March 2016. The financial statements comprise: the Consolidated Statement of Financial Activities, the Consolidated and Charity Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Board of Trustees, Accounting Officer and auditor

As explained more fully in the Statement of Responsibility, the Trustees and the Chief Executive, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Historic Royal Palaces' and the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Historic Royal Palaces; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Trustees' Report and the Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

## Opinion on regularity

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

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of Historic Royal Palaces' affairs as at 31 March 2016 and of the group's and Historic Royal Palaces' incoming resources and application of resources for the year then ended; and
- the financial statements have been properly prepared in accordance with *the Charities Act 2011* and Secretary of State directions issued with the approval of HM Treasury.

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

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## Opinion on other matters

In my opinion:

- the information given in the Trustees' Report and the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Sir Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

29 June 2016

# Consolidated Statement of Financial Activities

## for the year ended 31 March 2016

	Note	Unrestricted funds £000	Restricted funds £000	Total 2016 £000	Total 2015 £000
<b>INCOME</b>					
<b>Donations and legacies</b>					
Grants		-	2,987	2,987	5,978
Donations		2,299	62	2,361	2,622
Gifts in Kind		-	643	643	73
	9	<b>2,299</b>	<b>3,692</b>	<b>5,991</b>	<b>8,673</b>
<b>Income from other trading activities</b>					
Retail income		12,435	-	12,435	12,968
Functions and events		5,487	-	5,487	5,896
Licences and rents		3,470	-	3,470	4,942
Sponsorship		580	-	580	583
		<b>21,972</b>	<b>-</b>	<b>21,972</b>	<b>24,389</b>
<b>Investments</b>		415	-	415	433
<b>Income from charitable activities:</b>					
Admissions		55,732	4	55,736	56,190
Concessions		2,441	-	2,441	2,551
<b>Total income</b>	9	<b>82,859</b>	<b>3,696</b>	<b>86,555</b>	<b>92,236</b>
<b>EXPENDITURE</b>					
<b>Costs of raising funds:</b>					
Fundraising		1,545	-	1,545	1,295
Retail activities		10,670	-	10,670	10,353
Other commercial activities		3,475	-	3,475	3,409
Investment management costs		24	-	24	23
		<b>15,714</b>	<b>-</b>	<b>15,714</b>	<b>15,080</b>
<b>Expenditure on charitable activities:</b>					
<i>Give the palaces the care they deserve</i>		26,523	302	26,825	25,577
<i>Transform the way visitors explore their story:</i>					
Public access		24,705	1,148	25,853	24,260
Interpretation and learning		14,098	172	14,270	13,707
<i>Have a wider impact in the world</i>		5,563	7	5,570	6,292
	9	<b>70,889</b>	<b>1,629</b>	<b>72,518</b>	<b>69,836</b>
<b>Other</b>					
Defined Pension scheme net interest cost	8	231	-	231	82
<b>Total Expenditure</b>	3	<b>86,834</b>	<b>1,629</b>	<b>88,463</b>	<b>84,998</b>
<b>Net Income / (Expenditure)</b>		<b>(3,975)</b>	<b>2,067</b>	<b>(1,908)</b>	<b>7,238</b>
Actuarial gain/(loss) on pension plan	8	3,625	-	3,625	(5,255)
<b>Net movement in funds</b>		<b>(350)</b>	<b>2,067</b>	<b>1,717</b>	<b>1,983</b>
<b>Fund balances brought forward at 1 April</b>	5	<b>35,944</b>	<b>4,352</b>	<b>40,296</b>	<b>38,313</b>
<b>Fund balances carried forward at 31 March</b>	5	<b>35,594</b>	<b>6,419</b>	<b>42,013</b>	<b>40,296</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 25 to 49 form an integral part of these accounts.

## Consolidated and Charity Balance Sheets as at 31 March 2016

		Group 2016	Charity 2016	Group 2015	Charity 2015
	Note	£000	£000	£000	£000
<i>Fixed assets:</i>					
Intangible assets	10	25	25	42	42
Tangible assets	11	9,667	9,667	9,724	9,724
Heritage assets	12	6,459	6,459	5,796	5,576
Investments	13	9,347	9,347	9,664	9,664
		<b>25,498</b>	<b>25,498</b>	<b>25,226</b>	<b>25,226</b>
<i>Current assets:</i>					
Stocks - goods for resale		1,951	0	1,751	-
Debtors	14	4,024	4,822	7,300	8,159
Short-term cash deposits		15,000	15,000	15,000	15,000
Cash at bank and in-hand		13,640	12,680	11,908	11,374
		<b>34,615</b>	<b>32,502</b>	<b>35,959</b>	<b>34,533</b>
<i>Creditors: Amounts falling due within one year</i>	15	14,790	12,684	13,889	12,487
<b>Net current assets</b>		<b>19,825</b>	<b>19,818</b>	<b>22,070</b>	<b>22,046</b>
<b>Total assets less current liabilities</b>		<b>45,323</b>	<b>45,316</b>	<b>47,296</b>	<b>47,272</b>
<i>Creditors: Amounts falling due after more than one year</i>	16	7	-	24	-
<i>Provision for liabilities and charges</i>	17	12	12	38	38
<b>Net assets excluding Pension Plan liability</b>		<b>45,304</b>	<b>45,304</b>	<b>47,234</b>	<b>47,234</b>
<i>Pension Plan liability</i>	8	3,291	3,291	6,938	6,938
<b>Net assets including Pension Plan liability</b>		<b>42,013</b>	<b>42,013</b>	<b>40,296</b>	<b>40,296</b>
Unrestricted funds		35,594	35,594	35,944	35,944
Restricted funds		6,419	6,419	4,352	4,352
<b>Total funds</b>	5	<b>42,013</b>	<b>42,013</b>	<b>40,296</b>	<b>40,296</b>

These financial statements were approved by the Trustees and the Accounting Officer on 20 June 2016 and were signed on their behalf by:

Rupert Gavin  
Chairman of the Board of Trustees

Michael Day CVO  
Chief Executive and  
Accounting Officer

The notes on pages 25 to 49 form an integral part of these accounts.



## Consolidated Cash Flow Statement for the year ended 31 March 2016

	2016	2015
	£000	£000
Cash flows from operating activities		
Net cash provided by operating activities (note A below)	2,619	5,063
Cash flows from investing activities:		
Purchase of tangible assets	(1,286)	(1,273)
Purchase of intangible assets	-	-
Purchase of heritage assets	(20)	(214)
Proceeds from sale of fixed assets	10	16
Purchase of investments	(1,582)	(200)
Redemption of investments	1,576	200
Interest received	415	433
Cash flows from financing activities:		
Net (purchase)/sale of short-term deposits	-	(7,000)
<b>Increase/(Decrease) in cash</b>	<b>1,732</b>	<b>(2,975)</b>

<i>Note A : Reconciliation of net incoming resources to net cash inflow from operating activities</i>	2016	2015
	£000	£000
Net incoming /(outgoing) resources from charitable and trading activities	(1,908)	7,238
Interest receivable	(415)	(433)
Pension scheme: non-cash movements**	(22)	(224)
Donated heritage assets	(643)	(73)
Depreciation	1,298	1,312
Loss on disposal of fixed assets	52	18
Decrease in fixed asset investments	317	12
(Increase)/Decrease in stocks	(200)	5
(Increase)/Decrease in debtors	3,276	(1,887)
Increase/(Decrease) in creditors: current liabilities	901	(369)
Increase/(Decrease) in long term creditors	(17)	-
Increase/(Decrease) in provisions for liabilities and charges	(26)	(536)
Other non-cash movements	6	-
<b>Net cash inflow from operating activities</b>	<b>2,619</b>	<b>5,063</b>

<i>Analysis of net funds</i>	2016	2015	Change in year
	£000	£000	£000
Cash at bank and in hand	13,640	11,908	1,732

\* Liquid resources include term deposits of up to a year

\*\* Non cash movements for pensions have been consolidated

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 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 Charity, Historic Royal Palaces (HRP), and its trading subsidiary, Historic Royal Palaces Enterprises Ltd (HRPE), together 'the Group'.

### a) Status of charity

HRP is a registered charity established by Royal Charter.

### b) Basis of preparation

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

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

### c) Basis of consolidation

The Group accounts consolidate HRP and its subsidiary undertaking, HRPE, which has a co-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, it is probable that the income will be received 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 at market value at the time of receipt.
- Admissions - income recognised upon visitor entry.
- Retail and Catering - income recognised upon sale of the goods.
- Functions and Events - income is accounted for in the month that the event is due to take place.
- Licences and Rents - income is accounted for on a pro-rate basis over the period that the rent relates to.
- Sponsorship - income is accounted for evenly over the period of sponsorship.

# Notes to the Consolidated Accounts for the year ended 31 March 2016

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

### g) Intangible fixed assets

Bought-in software licences costing more than £5,000 are capitalised and included at cost within intangible assets. Depreciation is provided to write off their cost by equal instalments over their 5 year useful economic lives.

### 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. 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 Charity are depreciated over a period of 20 years. Assets purchased by or gifted to the Charity'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 2015 defines heritage assets as assets of historical and artistic importance that are held to advance preservation, conservation and the educational objectives of the Charity. Those heritage assets acquired since September 1989 are reported in the balance sheet at cost or, in the case of donated assets, at an approximate valuation estimated by HRP's curators to be an appropriate market value at the time of acquisition. Such assets are not depreciated as they are deemed to have indeterminate lives and a high residual value. Regular impairment reviews of heritage assets are undertaken.

Those items that were purchased by or gifted to the Charity's predecessors prior to September 1989 have not been capitalised. These comprise the majority of the collection but Trustees do not consider that relevant cost or valuation information can be obtained at a cost commensurate with the benefit to readers of the financial statements. This is because of the diverse nature of the assets held, the volume, and the lack of comparable market values.

Further information about HRP's total collection of heritage assets is set out in Note 12.

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 1 Accounting Policies (continued)

### j) Investments

HRP has purchased fixed income investments which have fixed and determinable coupons. These are retained with the intention and ability to be held until the maturity dates. The investments are measured at fair value upon purchase and then subsequently measured at amortised cost using the effective interest method. The carrying value is reduced if there is any impairment.

### k) Investment in subsidiary

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

Historic Royal Palaces Inc is a US-based private non-operating foundation. This is not consolidated into the Group accounts as it is not controlled by the Charity.

Paul Cummins Ceramics Blood Swept Lands and Seas of Red Community Interest Company (CIC) was incorporated on 25 July 2014, with shares limited by guarantee owned by Paul Cummins Ceramics Limited and Historic Royal Palaces. Its purpose is to sell the ceramic poppies made for the installation in the moat in 2014 at the Tower of London and to gift the net profits to its six stated beneficiaries: Combat Stress, The Confederation of Service Charities (COBSEO), Haig Housing Trust (Coming Home), Help for Heroes, The Royal British Legion and The Soldiers, Sailors, Airmen and Families Association (SSAFA). The CIC is stated in HRP's accounts in line with FRS 102.15 as an investment with no value, being asset-locked for the sole benefit of these six organisations.

### l) Stocks

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

### m) Financial instruments

HRP carries financial instruments in the form of cash, debtors and creditors at fair value, other than where a provision for specific doubtful debts has been made. Since almost all of these are expected to be realised within one year, there is no material difference between fair value, amortised cost and historical cost. Fixed income investments are measured at amortised cost.

### n) Leases

The Group has no finance leases. Costs relating to operating leases are charged in the Statement of Financial Activities over the life of the lease. Income from operating leases is recognised over the life of the lease.

### o) Pensions

The Charity operates a funded pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of HRP. From October 2002 the scheme was closed to new members. The Charity has implemented the full reporting requirements of FRS102: Employee Benefits in relation to the defined benefit scheme. The resulting deficit is treated as an unrestricted fund.

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

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 1. Accounting Policies (continued)

### p) Taxation

As a charity, the Charity is exempt from corporation tax under section 505 ICTA 1988. HRPE passes its profits before tax by Gift Aid to the Charity to leave reserves at or close to nil.

Admissions to the palaces administered by HRP are exempt from VAT under Schedule 9 of the VAT Act 1994. Due to this exemption, approximately 68% of VAT incurred by HRP is irrecoverable.

### q) Transition to FRS 102

The new accounting standards have been assessed and no material restatement of opening balances has been required in making the transition to FRS 102

## 2. Historic Royal Palaces Enterprises Ltd

The Charity has one wholly owned trading subsidiary, Historic Royal Palaces Enterprises Limited (HRPE), with a paid-up share capital of £2. HRPE is incorporated in the UK (registration number 3418583). The principal activities of the company are retailing and functions and other events held at the palaces managed by the Charity. A summary of its trading results and its net assets is shown below. Audited accounts are filed with the Registrar of Companies.

	2016	2015
	£000	£000
<b>Profit and loss account</b>		
Turnover (other trading activities)	19,567	20,894
Cost of sales (costs of raising funds)	(4,343)	(4,515)
<b>Gross profit</b>	<b>15,224</b>	<b>16,379</b>
Administrative expenses	(11,369)	(11,380)
Interest receivable	2	3
<b>Net profit</b>	<b>3,857</b>	<b>5,002</b>
Amount passed as Gift Aid to HRP	(3,849)	(4,998)
Taxation	(8)	(4)
<b>Retained in subsidiary</b>	<b>-</b>	<b>-</b>
	2016	2015
	£000	£000
<b>Balance Sheet as at 31 March 2016</b>		
Stocks - goods for resale	1,951	1,751
Debtors	403	468
Cash	960	534
Current liabilities	(3,307)	(2,729)
Creditors due after more than 1 year	(7)	(24)
<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 2016

## 3. Total resources expended

	Total direct costs £000	Allocation of support costs £000	Total 2016 £000	Total 2015 £000
<b>Costs of raising funds</b>				
<i>Generating the money to make it possible:</i>				
Fundraising	1,373	172	1,545	1,295
Retail activities	9,130	1,540	10,670	10,353
Other commercial activities	3,044	431	3,475	3,409
Investment management costs	24	-	24	23
	<b>13,571</b>	<b>2,143</b>	<b>15,714</b>	<b>15,080</b>
<b>Expenditure on charitable activities</b>				
<i>Give the palaces the care they deserve</i>				
	24,096	2,729	26,825	25,577
<i>Transform the way visitors explore their story:</i>				
Public access	21,286	4,567	25,853	24,260
Interpretation and learning	12,499	1,771	14,270	13,707
<i>Have a wider impact in the world</i>				
	5,078	492	5,570	6,292
	<b>62,959</b>	<b>9,559</b>	<b>72,518</b>	<b>69,836</b>
Pension finance (income)/costs	231	-	231	82
<b>Total</b>	<b>76,761</b>	<b>11,702</b>	<b>88,463</b>	<b>84,998</b>

<b>Resources expended include charges for:</b>	Total 2016 £000	Total 2015 £000
<b>Auditors' remuneration:</b>		
Audit		
- HRP	42	40
- HRPE	18	18
The auditors did not provide any non-audit services		
<b>Hire of:</b>		
Computers	9	25
Plant and machinery	158	176
Other	353	371
Stock recognised as an expense	4,229	4,429
Impairment of stock (included in cost of sales)	114	86
<b>Depreciation written off owned fixed assets:</b>		
Tangible	1,281	1,292
Intangible	17	21
Corporation tax	8	4

## Notes to the Consolidated Accounts for the year ended 31 March 2016

### 4. Support costs

	Human Resources £000	Information Systems £000	Finance Department £000	Employee Services £000	Management Costs £000	Governance Costs £000	Total 2016 £000	Total 2015 £000
<b>Costs of raising funds</b>								
Fundraising	17	74	59	1	15	6	172	139
Retail activities	172	749	397	11	151	60	1,540	1,354
Other commercial activities	48	207	115	3	42	16	431	371
<b>Charitable expenditure</b>								
<i>Give the palaces the care they deserve</i>	252	1,095	1,057	16	221	88	2,729	2,365
<i>Transform the way visitors explore their story:</i>								
Public access	609	2,644	528	40	535	211	4,567	3,726
Interpretation and learning	208	904	390	14	183	72	1,771	1,503
<i>Have a wider impact in the world</i>	38	167	237	3	34	13	492	506
<b>Total</b>	<b>1,344</b>	<b>5,840</b>	<b>2,783</b>	<b>88</b>	<b>1,181</b>	<b>466</b>	<b>11,702</b>	<b>9,964</b>

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

#### Governance Costs

	2016 £000	2015 £000
Internal and external audit	217	168
Trustee expenses and costs	20	17
Trustee and chairman recruitment costs	23	71
Production of annual report	4	4
Management costs	202	193
	<b>466</b>	<b>453</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 5. Total funds

	Funds as at 1 April 2015	Incoming resources	Resources expended	Revaluations	Transfers between funds	Funds as at 31 March 2016
	£000	£000	£000	£000	£000	£000
<b>Unrestricted funds</b>						
<b>General (Free) reserves</b>	5,000	81,009	(85,006)	-	3,997	5,000
Designated funds	24,382	-	-	-	(3,943)	20,439
Fixed assets	13,500	-	-	-	(54)	13,446
Pension plan	(6,938)	1,850	(1,828)	3,625	-	(3,291)
<b>Total</b>	<b>35,944</b>	<b>82,859</b>	<b>(86,834)</b>	<b>3,625</b>	<b>-</b>	<b>35,594</b>
<b>Restricted funds</b>						
Donated assets	2,062	643	-	-	-	2,705
Hillsborough Castle	2,257	2,019	(666)	-	-	3,610
White Tower Steps	-	13	(13)	-	-	-
Home Park Meadows project at Hampton Court Palace	2	26	(5)	-	-	23
Kensington Palace Development	-	315	(315)	-	-	-
Magic Garden project at Hampton Court Palace	-	566	(566)	-	-	-
Other garden projects at Hampton Court Palace	12	60	(11)	-	-	61
Chapel of St Peter ad Vincula at the Tower of London	-	2	(2)	-	-	-
Other projects	19	52	(51)	-	-	20
<b>Total</b>	<b>4,352</b>	<b>3,696</b>	<b>(1,629)</b>	<b>-</b>	<b>-</b>	<b>6,419</b>
<b>Total funds</b>	<b>40,296</b>	<b>86,555</b>	<b>(88,463)</b>	<b>3,625</b>	<b>-</b>	<b>42,013</b>

### Designated funds

Funds have been designated out of general reserves to protect expenditure on long-term commitments to major projects, including:

- £4.4m to complete projects in 2016/17 that were underway in 2015/16
- £6.3m to support our plans to develop Hillsborough Castle over the next three years
- £3.5m towards the future development of the Tower of London entry project
- £1.9m towards the cost of conserving and representing the Kew Pagoda over the next two years
- £1.5m for the third year of our work to implement our new Digital strategy
- £1.4m for the phase two works next year on the Kings State Apartments at Kensington Palace



# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 5. Total funds (continued)

### Transfers between funds

As set out in our Reserves policy on page 8, a permanent designated fund is matched to fixed assets, as this cannot be quickly utilised to realise cash in the event of a cash requirement. Any excess above this and the target free reserves of £5m is designated at Trustees' discretion. £14.2m of last year's designation was spent and new designations of £10.3m created.

### Analysis of net assets between funds

Fund balances of the Group and Charity at 31 March 2016 are represented by:

	Unrestricted funds £000	Restricted funds £000	2016 £000	2015 £000
Intangible assets	25	-	25	42
Tangible assets	9,667	-	9,667	9,724
Heritage assets	3,754	2,705	6,459	5,796
Investments	9,347	-	9,347	9,664
Net current assets	16,111	3,714	19,825	22,070
Creditors > one year	(7)	-	(7)	(24)
Provisions	(12)	-	(12)	(38)
Pension plan liability	(3,291)	-	(3,291)	(6,938)
<b>Total net assets</b>	<b>35,594</b>	<b>6,419</b>	<b>42,013</b>	<b>40,296</b>

## 6. Remuneration of Trustees

None of the Trustees received any remuneration during the year in connection with services to the Charity or its subsidiary. Reimbursement of travel and subsistence expenses incurred by the Trustees whilst carrying out their responsibilities for the Charity totalled £1,963 (2015: £3,996) for the year ending 31 March 2016. Expenses were reimbursed for 5 Trustees (2015: 10). HRP provides liability insurance for Trustees.

## 7. Staff numbers and costs (Group & Charity)

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

	2016 FTE	2015 FTE
Fundraising	11	11
Retail activities	109	109
Other commercial activities	30	29
<i>Give the palaces the care they deserve</i>	160	162
<i>Transform the way visitors explore their story:</i>		
Public access	386	354
Interpretation and learning	132	124
<i>Have a wider impact in the world</i>	24	26
Support costs	97	76
<b>Total</b>	<b>949</b>	<b>891</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 7. Staff numbers and costs (continued)

The aggregate payroll costs of these staff were as follows:

	2016 £000	2015 £000
Wages and salaries	30,845	28,391
Loss of office	30	73
Ex gratia payments	52	93
Social security costs	2,930	2,700
Pension costs	3,489	3,396
<b>Total</b>	<b>37,346</b>	<b>34,653</b>
Agency staff	450	336
<b>Total</b>	<b>37,796</b>	<b>34,989</b>

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

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

	2016 No. of staff	2015 No. of staff
£60,001 to £70,000	28	21
£70,001 to £80,000	7	12
£90,001 to £100,000	1	-
£110,001 to £120,000	1	2
£120,001 to £130,000	3	1
£130,001 to £140,000	2	3

Excluding the Chief Executive, there were 42 staff including directors during the year earning in excess of £60,000 (2015: 39), 16 were in a defined benefit scheme (2015: 14) where the employer contributions were £331,614 (2015: £287,426), and 26 were in a defined contribution scheme (2015: 25) where the employer contributions were £148,279 (2015: £138,631).

The aggregate emoluments of key management personnel were as follows:

	Age	Remuneration	Pension Contributions made to Group Personal Pension Plan	Staff Benefits
Michael Day CVO	63	£164,529	£11,149	£1,309

The remuneration of the Chief Executive in 2014/15 was £160,979, with pension contributions of £11,912, and staff benefits of £1,281.

Excluding the Chief Executive, the total remuneration to the Executive Board was £914,895 (2015: £876,419) with pension contributions of £109,951 (2015: £109,581) and staff benefits of £6,470 (2015: £5,635)

## 8. Retirement benefits (Group & Charity)

### a) Historic Royal Palaces Pension Scheme

The employer 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. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities.

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 8. Retirement benefits (continued)

A full actuarial valuation was carried out at 31 March 2015 and updated to 31 March 2016 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

This most recent actuarial valuation showed a deficit of £1,101,000. The employer has agreed with the trustees that it will pay no contributions in respect of the deficit from 1 April 2016 because the investment outperformance assumed in the recovery plan was expected to eliminate the deficit by 30 June 2016 (for the year ending 31 March 2016, deficit contributions of £394,655 were paid). In addition and in accordance with the actuarial valuation, the employer has agreed with the trustees that from 1 April 2016 it will pay 31.8% of pensionable earnings (increasing from the rate of 27.5% for the year ending 31 March 2016) in respect of the cost of accruing benefits and will meet expenses of the scheme and levies to the Pension Protection Fund. Member contributions are payable in addition at the rate of 1.5% of pensionable earnings.

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

	31/03/2016	31/03/2015	31/03/2014
	£'000	£'000	£'000
Fair value of plan assets	70,940	70,697	60,839
Present value of defined benefit obligation	74,231	77,635	62,746
Surplus (deficit) in plan	(3,291)	(6,938)	(1,907)
Unrecognised surplus	-	-	-
Defined benefit asset (liability) to be recognised	(3,291)	(6,938)	(1,907)
Deferred Tax	-	-	-
Net defined benefit asset (liability) to be recognised	(3,291)	(6,938)	(1,907)

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

	Period Ending 31/03/2016 £'000	Period Ending 31/03/2015 £'000
Defined benefit obligation at start of period	77,635	62,746
Current service cost	1,719	1,740
Expenses	109	184
Interest expense	2,645	2,831
Contributions by plan participants	84	89
Actuarial losses (gains)	(6,411)	11,686
Benefits paid and death in service premiums	(1,550)	(1,641)
Defined benefit obligation at end of period	74,231	77,635

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 8. Retirement benefits (continued)

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

	Period Ending 31/03/2016 £'000	Period Ending 31/03/2015 £'000
Fair value of scheme assets at start of period	70,697	60,839
Interest income	2,414	2,749
Actuarial gains (losses)	(2,786)	6,431
Contributions by the employer	2,081	2,230
Contributions by plan participants	84	89
Benefits paid and death in service premiums	(1,550)	(1,641)
<b>Fair value of plain assets at end of period</b>	<b>70,940</b>	<b>70,697</b>

The actual return on the plan assets over the period ending 31 March 2016 was (£372,000)

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

	Period Ending 31/03/2016 £'000	Period Ending 31/03/2015 £'000
Current service cost	1,719	1,740
Expenses	109	184
Net Interest cost	231	82
Losses (gains) on business combinations	-	-
Losses (gains) on settlements	-	-
Losses (gains) on curtailments	-	-
Losses (gains) due to benefit changes	-	-
Expected return on scheme assets	-	-
<b>Total expense recognised in SOFA</b>	<b>2,059</b>	<b>2,006</b>

### Defined benefit costs recognised in other comprehensive income

	Period Ending 31/03/2016 £'000	Period Ending 31/03/2015 £'000
Return on plan assets (excluding amounts included in net interest cost) - gain/(loss)	(2,786)	6,431
Experience gains and losses arising on the plan liabilities - gain (loss)	2,383	64
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities - gain (loss)	4,028	(11,750)
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-	-
<b>Total amount recognised in other comprehensive income - gain (loss)</b>	<b>3,625</b>	<b>(5,255)</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 8. Retirement benefits (continued)

### Assets

	31/03/2016	31/03/2015	31/03/2014
	£'000	£'000	£'000
Equities	29,475	29,393	25,229
Corporate Bonds	16,143	16,424	13,579
Fixed interest Bonds	15,877	15,930	13,829
Property	9,355	8,740	8,038
Cash	90	210	164
<b>Total assets</b>	<b>70,940</b>	<b>70,697</b>	<b>60,839</b>

None of the fair values of the assets shown above include any direct investments in the employer's own financial instruments or any property occupied by, or other assets used by, the employer

### Assumptions

	31/03/2016	31/03/2015	31/03/2014
	% per annum	% per annum	% per annum
Discount Rate	3.60%	3.40%	4.50%
Inflation (RPI)	3.30%	3.30%	3.60%
Inflation (CPI)	2.30%	2.30%	2.60%
Salary growth	2.75%	2.75%	3.05%
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.30%	2.30%	2.60%
Allowance for revaluation of deferred pensions of CPI or 2.5% p.a. if less	2.30%	2.30%	2.50%
Allowance for pension in payment increases of RPI or 5% p.a. if less	3.20%	3.20%	3.50%
Allowance for pension in payment increases of RPI or 3% p.a. if less	3.00%	3.00%	3.00%
Allowance for pension in payment increases of RPI	3.30%	3.30%	3.60%
Allowance for commutation of pension for cash at retirement	No allowance	No allowance	No allowance

The mortality assumptions adopted at 31 March 2016 imply the following life expectancies:

	Life expectancy at age 60 (Years)
Male retiring in 2016	26.9
Female retiring in 2016	29.0
Male retiring in 2036	28.7
Female retiring in 2036	31.0

The best estimate of contributions to be paid by the employer to the scheme for the period commencing 1 April 2016 is £1,792,000.

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 8. Retirement benefits (continued)

### b) Defined Contribution Schemes

A group personal pension scheme based on defined contributions was set up for new members of established staff and staff on contracts exceeding 1 year with effect from October 2002. The cost for the year was £1,555,992 (2015: £1,367,046), with no outstanding contributions at the balance sheet date. The cost forms part of staff costs which as stated in note 1(f) are classed as direct expenditure attributable to the activity, and are all from unrestricted funds.

An additional group personal pension scheme based on defined contributions was set up for casual staff and staff on contracts of less than 1 year with effect from October 2013, to meet pension auto-enrolment requirements. The cost for the year was £16,420 (2015: £17,024), with no outstanding contributions at the balance sheet date.

## 9. SOFA Comparatives

Income from donations and legacies for the current year was £5,991k (2015: £8,673k) of which £3,692k was restricted (2015: £6,107k was restricted comprising Grants £5,978k; Donations £52k; Gifts in Kind £77k)

Income from charitable activities for the current year was £86,555k (2015: £92,236k) of which £4k was restricted (2015: £0)

Expenditure on charitable activities for the current year was £72,518k (2015: £69,836k) of which £1,629k was restricted (2015: £3,866k was restricted comprising Give the Palaces the care they deserve £1,777k; Public Access £1,841k; Interpretation and Learning £248k)

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 10. Intangible fixed assets (Group & Charity)

	Software licences £000
<b>Cost</b>	
Balance as at 1 April 2015	143
Additions	-
<b>Balance as at 31 March 2016</b>	<b>143</b>
<b>Accumulated depreciation</b>	
Balance as at 1 April 2015	101
Charge for the year	17
<b>Balance as at 31 March 2016</b>	<b>118</b>
<b>Net book value as at 31 March 2016</b>	<b>25</b>
As at 31 March 2015	42

The net book value as at 31 March 2016 represents intangible fixed assets used for

	£000
<b>Costs of raising funds</b>	
Retail activities	3
Other commercial activities	1
Fundraising	-
<b>Expenditure on charitable activities</b>	
<i>Give the palaces the care they deserve</i>	5
<i>Transform the way visitors explore their story:</i>	
Public access	11
Interpretation and learning	4
<i>Have a wider impact in the world</i>	1
	<b>25</b>

## Notes to the Consolidated Accounts for the year ended 31 March 2016

### 11. Tangible fixed assets (Group & Charity)

	Buildings & refurbishments	Fixtures & fittings	Furniture, equipment & exhibitions	Computers	Plant, machinery & vehicles	Assets in course of construction	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Cost</b>							
<b>Balance as at 1 April 2015</b>	<b>13,842</b>	<b>4,401</b>	<b>3,969</b>	<b>906</b>	<b>5,111</b>	<b>266</b>	<b>28,495</b>
Additions	229	745	14	-	270	28	1,286
Disposals	(175)	(63)	(169)	(22)	(70)	(41)	(540)
Transfers within tangible assets	-	-	14	-	211	(225)	-
<b>Balance as at 31 March 2016</b>	<b>13,896</b>	<b>5,083</b>	<b>3,828</b>	<b>884</b>	<b>5,522</b>	<b>28</b>	<b>29,241</b>
<b>Accumulated depreciation</b>							
<b>Balance as at 1 April 2015</b>	<b>8,462</b>	<b>2,992</b>	<b>2,935</b>	<b>697</b>	<b>3,685</b>	-	<b>18,771</b>
Charge for the year	354	266	317	72	272	-	1,281
Disposals	(175)	(42)	(169)	(22)	(70)	-	(478)
<b>Balance as at 31 March 2016</b>	<b>8,641</b>	<b>3,216</b>	<b>3,083</b>	<b>747</b>	<b>3,887</b>	-	<b>19,574</b>
<b>Net book value as at 31 March 2016</b>	<b>5,255</b>	<b>1,867</b>	<b>745</b>	<b>137</b>	<b>1,635</b>	<b>28</b>	<b>9,667</b>
As at 31 March 2015	5,380	1,409	1,034	209	1,426	266	9,724
<b>The net book value as at 31 March 2016 represents fixed assets used for</b>							
Fundraising	-	-	-	1	-	-	1
Retail activities	98	693	-	19	17	2	829
Other commercial activities	-	8	14	4	18	1	45
<b>Charitable expenditure:</b>							
<i>Give the palaces the care they deserve</i>	1,917	375	-	20	982	3	3,297
<i>Transform the way visitors explore their story:</i>							
Public access	2,474	331	408	76	586	20	3,895
Interpretation and learning	766	460	315	14	32	2	1,589
<i>Have a wider impact in the world</i>	-	-	8	3	-	-	11
	<b>5,255</b>	<b>1,867</b>	<b>745</b>	<b>137</b>	<b>1,635</b>	<b>28</b>	<b>9,667</b>



# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 12. Heritage assets (Group & Charity)

	Artefacts 2016 £000	No.	Artefacts 2015 £000	No.	Artefacts 2014 £000	No.	Artefacts 2013 £000	Artefacts 2012 £000
<b>Cost and net book value</b>								
<b>Balance as at 1 April</b>	<b>5,796</b>	465	<b>5,528</b>	457	<b>5,473</b>	453	<b>5,172</b>	<b>4,975</b>
Additions, at cost	20	2	214	4	44	3	143	57
Transfers from assets in the course of construction	-	-	-	-	-	-	48	-
Disposals	-	-	(19)	(2)	-	-	-	-
Donated works, at deemed value	643	2	73	6	11	1	110	140
<b>Balance as at 31 March</b>	<b>6,459</b>	469	<b>5,796</b>	465	<b>5,528</b>	457	<b>5,473</b>	<b>5,172</b>

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

### Charitable expenditure

*Transform the way visitors  
explore their story:*

Interpretation and learning	<b>6,459</b>	5,796	5,528	5,473	5,172
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There were two donated additions in Heritage assets in the year:

- Painting of Sir Winston Churchill by Sir John Lavery valued at £630,000. This was gifted in lieu of inheritance tax and the valuation basis used is the tax settlement value.
- Collection of paintings from the Hampton Court Palace Florilegium Society valued at £13,000. The valuation basis is previous painting sales by the artists.

### 12a) Further information on HRP's collections of heritage assets

The palaces are not owned by HRP, but by HM The Queen on behalf of the nation. Expenditure on their conservation is recognised in the Statement of Financial Activities when it is incurred.

The main categories of accessioned heritage assets, including those shown on the balance sheet, are:

- The Royal Ceremonial Dress Collection (c 8,700 accessioned items), an important collection of largely British royal and court ceremonial dress, established at Kensington Palace in 1984;
- The general collection (c 7,500 accessioned items), consisting of paintings, drawings, prints, furniture, sculpture, furnishing textiles, decorative arts and social history objects, chiefly displayed as part of the historic furnished interiors at the palaces;
- Architectural drawings archive (c 22,000 accessioned items), containing both modern and historic drawings and copies.
- Architectural and archaeological materials salvaged or excavated from the palaces. These are primarily used as a research archive. (c 6,800 accessioned items).

In addition, HRP owns unaccessioned assets as follows:

- c 8,000 architectural drawings.

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

- The majority of the important works of art displayed "at home" at our palaces and stored form part of the Royal Collection, owned by HM The Queen and administered by the Royal Collection Trust (c 8,000 items);

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 12. Heritage assets (continued)

- The displays of arms, armour and related material at the Tower of London belong to the Royal Armouries (c 900 items).
- The artwork collection and other items on display at Hillsborough Castle

Our collections remain on public display whenever possible. Storage is normally limited to items providing a research resource, unsuitable for display for conservation reasons or archaeological finds. We loan historic objects from our collections to public exhibitions and museum/ gallery displays

The priority for acquisition or long term loan of heritage assets is to enhance and explain the historic buildings of the palaces with relevant objects. Acquisitions are made by purchase or donation, taking six criteria into consideration. Significant acquisitions require Trustee approval. The highest priority is given to items deriving from the existing buildings of the palaces. Additional criteria apply to the Royal Ceremonial Dress Collection.

Exceptionally, the Trustees will approve the disposal of objects for curatorial reasons but not disposal motivated by financial reasons. The principle of retaining disposed items in public ownership is preferred. Any proceeds of sale are applied for the benefit of the collections.

The de-accession of four replica sculptures and plinths after Rusconi, 1994 took place in the year, following a request by the Royal Collection Trust to transfer ownership of the replicas to the Royal Collection to take the place of the originals at Windsor Castle. The originals are now on display "at home" at Kensington Palace.

### 12b) Heritage assets of particular importance

The most significant heritage asset shown on the balance sheet is the van Dyck portrait of Princess Mary, received as a donation from the Museums Libraries and Archives Council in 2008/09 and valued at acquisition at £1.5m.

Of particular significance and not shown on the balance sheet is the only surviving in-situ ceiling painting by Peter Paul Rubens, at the Banqueting House, installed in 1636.

We do not own, but display and provide day-to-day care for the Crown Jewels in the Tower of London.

### 12c) Management and Conservation

HRP maintains a register of heritage assets, which includes records of ownership, conservation status and location. The conservation and curatorial teams manage the collections, including loan items, in accordance with the policies approved by the Trustees. These teams report to the Director of Conservation and Learning.

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

## Notes to the Consolidated Accounts for the year ended 31 March 2016

### 13. Investments

	Group 2016 £000	Charity 2016 £000
<b>Balance as at 1 April</b>	9,664	9,664
Effective interest earned	182	182
Interest coupons received	(505)	(505)
Bonds purchased	1,582	1,582
Bonds redeemed	(1,576)	(1,576)
<b>Balance as at 31 March</b>	<b>9,347</b>	<b>9,347</b>

These consist of short dated, investment grade, sterling, fixed income securities. Investments are accounted for using the effective interest method as they are intended to be held to maturity

### 14. Debtors

	Group 2016 £000	Charity 2016 £000	Group 2015 £000	Charity 2015 £000
Trade debtors	1,951	1,756	1,581	1,319
Amounts due from subsidiary	-	1,198	-	1,327
Other debtors	365	264	227	115
Prepayments and accrued income	1,708	1,604	5,492	5,398
	<b>4,024</b>	<b>4,822</b>	<b>7,300</b>	<b>8,159</b>

Within debtors, £nil of accrued income is due after more than one year (2015: £nil).

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

	Group 2016 £000	Charity 2016 £000	Group 2015 £000	Charity 2015 £000
Trade creditors	1,903	1,535	1,871	1,647
Taxation and social security	846	838	798	795
Other creditors	264	265	315	314
Accruals	9,228	8,542	8,806	8,231
Deferred income	2,549	1,504	2,099	1,500
	<b>14,790</b>	<b>12,684</b>	<b>13,889</b>	<b>12,487</b>

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

## Notes to the Consolidated Accounts for the year ended 31 March 2016

### 16. Creditors: amounts falling due after more than one year

	Group 2016 £000	Charity 2016 £000	Group 2015 £000	Charity 2015 £000
Deferred income	7	-	24	-

### 17. Provision for liabilities and charges (Group & Charity)

	Claims £000	Total £000
Balance as at 1 April 2015	38	38
Amounts used in year	(26)	(26)
New provisions in year	-	-
<b>Balance as at 31 March 2016</b>	<b>12</b>	<b>12</b>

Claim provisions include amounts that will probably be due in the next year following contractual and public liability claims.

### 18. Financial commitments under operating leases

	Group 2016 £000	Charity 2016 £000	Group 2015 £000	Charity 2015 £000
Operating Lease payments due:				
Land and Buildings:				
Within one year	424	287	364	281
Between two to five years	1,697	1,149	1,697	1,149
Over five years	18,805	18,257	19,230	18,545
Others				
Within one year	45	41	44	40
Between two to five years	5	1	17	7
Over five years	-	-	-	-
<b>Total payable</b>	<b>20,976</b>	<b>19,735</b>	<b>21,352</b>	<b>20,022</b>

## Notes to the Consolidated Accounts for the year ended 31 March 2016

### 19. Operating lease income

	Group 2016 £000	Charity 2016 £000	Group 2015 £000	Charity 2015 £000
Operating Lease income due: Land and Buildings:				
Within one year	65	65	65	65
Between two to five years	9	9	74	74
Over five years	-	-	-	-
<b>Total receivable</b>	<b>74</b>	<b>74</b>	<b>139</b>	<b>139</b>

Part of the collections property purchased in May 2014 is let on an operating lease. The gross value of the property is £1,600,000 and at 31 March 2016 accumulated depreciation charges totalled £92,000.

### 20. Capital commitments

	Group 2016 £000	Charity 2016 £000	Group 2015 £000	Charity 2015 £000
Contracted capital commitments as at 31 March 2016, for which no provision has been made in the accounts:				
Contracted	4,166	4,106	11,402	11,384
Authorised	21,045	21,045	17,930	17,808
	<b>25,211</b>	<b>25,151</b>	<b>29,332</b>	<b>29,192</b>

Commitments include £23,473 (2015: £2,138,778) relating to projects that are being funded by donations from third parties.

### 21. 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.

HRP is in ongoing negotiations over final agreements relating to our capital projects. Any final amounts above or below those amounts provided in the financial statements will be recognised in future financial statements.

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 22. The summary financial performance of the charity alone is

	Unrestricted funds £000	Restricted funds £000	Total 2016 £000	Total 2015 £000
<b>INCOME</b>				
<b>Donations and legacies</b>				
Grants	-	2,987	2,987	5,978
Donations	2,299	62	2,361	2,622
Gifts in Kind	-	643	643	73
	<b>2,299</b>	<b>3,692</b>	<b>5,991</b>	<b>8,673</b>
<b>Income from other trading activities</b>				
Retail income	-	-	-	2
Functions and events	458	-	458	169
Licences and rents	1,945	-	1,945	3,324
Sponsorship	1	-	1	-
	<b>2,404</b>	<b>-</b>	<b>2,404</b>	<b>3,495</b>
<b>Investment income</b>	413	-	413	431
<b>Income from charitable activities:</b>				
Admissions	61,677	4	61,681	62,055
Concessions	2,441	-	2,441	2,551
<b>Other Income</b>				
Service Charge and Gift Aid	12,527	-	12,527	13,779
<b>Total income</b>	<b>81,761</b>	<b>3,696</b>	<b>85,457</b>	<b>90,984</b>
<b>EXPENDITURE</b>				
<b>Costs of raising funds:</b>				
Fundraising	1,271	-	1,271	1,081
Retail activities	136	-	136	139
Other commercial activities	272	-	272	215
	<b>1,679</b>	<b>-</b>	<b>1,679</b>	<b>1,435</b>
<b>Expenditure on charitable activities:</b>				
<i>Give the palaces the care they deserve</i>	21,971	302	22,273	21,486
<i>Transform the way visitors explore their story:</i>				
Public access	25,155	1,148	26,303	25,459
Interpretation and learning	11,652	172	11,824	11,515
<i>Have a wider impact in the world</i>	4,662	7	4,669	5,319
	<b>63,440</b>	<b>1,629</b>	<b>65,069</b>	<b>63,779</b>
<b>Other</b>				
Support costs and governance	20,386	-	20,386	18,450
Pension finance (income)/costs	231	-	231	82
	<b>20,617</b>	<b>-</b>	<b>20,617</b>	<b>18,532</b>
<b>Total Expenditure</b>	<b>85,736</b>	<b>1,629</b>	<b>87,365</b>	<b>83,746</b>
<b>Net Income / Expenditure</b>	<b>(3,975)</b>	<b>2,067</b>	<b>(1,908)</b>	<b>7,238</b>
Actuarial gain/(loss) on pension plan	3,625	-	3,625	(5,255)
<b>Net movement in funds</b>	<b>(350)</b>	<b>2,067</b>	<b>1,717</b>	<b>1,983</b>
<b>Fund balances brought forward at 1 April</b>	<b>35,944</b>	<b>4,352</b>	<b>40,296</b>	<b>38,313</b>
<b>Fund balances carried forward at 31 March</b>	<b>35,594</b>	<b>6,419</b>	<b>42,013</b>	<b>40,296</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 23. Related party transactions

This note lists material transactions with other entities in which either Trustees or senior employees of HRP or their close family members hold positions of authority. It also details all transactions with Trustees, with the exception of remuneration of Trustees which is covered in Note 6 and donations made by them, which totalled £800 in year (2014-15: £105,000).

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

Historic Royal Palaces (HRP) is contracted by the Secretary of State for Culture, Media and Sport to manage the palaces on his behalf.

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

Related party	Connected party	2016 £000	2015 £000	Detail of transaction
Catlin Holdings Ltd	Bruce Carnegie-Brown (Trustee of HRP) was Senior Independent Director of the Catlin Group (resigned May14)	-	45 (nil)	Charge made by HRPE for corporate sponsorship and event at HM Tower of London
Close Brothers Group PLC	Bruce Carnegie-Brown (Trustee of HRP) was Senior Independent Director of Close Brothers (resigned Nov14)	-	7 (nil)	Charge made by HRPE for an event held at HM Tower of London
Historic Royal Palaces Inc (HRP Inc)	Michael Day (Chief Executive of HRP) is President of HRP Inc and Daniel Wolfe (Director of HRP) is a Director of HRP Inc (neither role is remunerated)	355 (nil)	231 (nil)	Grant received by HRP from HRP Inc
MoneySupermarket.com Ltd	Bruce Carnegie-Brown (Trustee of HRP) is Chairman of MoneySupermarket.com Ltd	35 (nil)	-	Charge made by HRPE for sponsorship of Tudors on Tour event
Northern Ireland Office (NIO)	Contracts HRP to manage Hillsborough Castle	-	4,250 (nil)	Grants received by HRP for Hillsborough Castle development project
		279 (40)	-	Charges made by HRP and HRPE to NIO for security and cleaning costs

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 23. Related party transactions (continued)

Related party	Connected party	2016 £000	2015 £000	Detail of transaction
		2 (nil)	-	- Payments made by HRP for CTC clearances
Paul Cummins Ceramics Blood Swept Lands and Seas of Red Community Interest Company (CIC)	Michael Day (Chief Executive of HRP) is a Director (not remunerated) of the CIC	-	1,360 (nil)	Recovery of HRP costs incurred on the poppy installation at HM Tower of London
Purcell UK (trading name of Purcell Millar Tritton LLP)	Jane Kennedy (Trustee of HRP) is a partner in Purcell UK	19 (nil)	-	- Charges made by HRPE for event held at HCP
		100 (8)	-	- Payments made by HRP for architectural services at Kensington Palace and Hampton Court Palace
Royal Armouries (RA)	General the Lord Dannatt (Trustee of HRP) is a Trustee of RA	255 (77)	237 (36)	Payments made by HRP for goods and services provided at HM Tower of London
		13 (nil)	14 (1)	Recovery of costs from RA for maintenance, goods and services provided by HRP and HRPE at HM Tower of London
Royal Botanic Gardens (RBGK) and RBG Kew Enterprises Limited (RBGKEL) which is a wholly owned subsidiary of RBGK	Val Gooding (Trustee of HRP) is a Trustee of RBGK	-	10 (nil)	Charges made by HRP to RBGK for electricity supply
		175 (nil)	175 (nil)	Annual income contribution to HRP from RBGKEL towards the operational costs of Kew Palace, Queen Charlotte's Cottage and the Royal Kitchens
		9 (nil)	-	- Contribution from RBGK to HRP for an employee's salary
The Royal Collection Trust (the RCT) and Royal Collection Enterprises Limited (RCEL) which is a wholly owned subsidiary of the RCT	Sir Alan Reid (Trustee of HRP until 31/07/2015) is a Trustee of the RCT and the Chairman of RCEL.	146 (4)	65 (16)	Payments made by HRP and HRPE to RCEL for the right to produce images of Royal Collection items and for the purchase of goods for resale.
	Jonathan Marsden (Trustee of HRP) is a Director of the RCT and RCEL.	38 (5)	34 (10)	Recovery by the RCT from HRP of a proportion of the costs of maintaining and recording Royal Collection and other items displayed in the palaces.



# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 23. Related party transactions (continued)

Related party	Connected party	2016 £000	2015 £000	Detail of transaction
		2 (nil)		- Charges by HRP and HRPE to the RCT and RCEL for joint ticket sales for Royal Garden tickets and images and refreshment costs
Royal Household (RH)	Sir Alan Reid (Trustee of HRP until 31/07/2015) is Keeper of the Privy Purse and Treasurer to HM The Queen. Mike Stevens (Trustee of HRP) is Deputy Keeper of the Privy Purse	92 (4)	40 (6)	Payments made by HRP for rent and services provided by RH at Kensington Palace
Santander UK PLC	Bruce Carnegie-Brown (Trustee of HRP) is Non-Executive Director of Santander	- -	42 (nil)	Charge made by HRPE for corporate sponsorship
The Chapel Council of St Peter ad Vincula	Richard Harrold (Tower Group Director of HRP) is a member of the Chapel Council	- -	530 (530)	Grant received by HRP for conservation of the Chapel Royal of St Peter ad Vincula at HM Tower of London
The Foundation of the Chapels Royal of the Tower of London	General the Lord Dannatt (Trustee of HRP) is chairman of The Foundation, and Richard Harrold (Tower Group Director of HRP) is a Trustee	9 (nil)		- Charges made by the Foundation to HRP for choral services at HM Tower of London
Unique Venues of London (UVL)	The ex-Head of the Banqueting House was a member of the management board of this not for profit marketing association	- -	10 (nil)	Payments made by HRPE for its membership of UVL

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

# Notes to the Consolidated Accounts for the year ended 31 March 2016

## 24. Financial instruments

Disclosure is required of the role financial instruments have played during the year in creating or changing the risks HRP faces in undertaking its activities.

Since most income is generated from visitors to the palaces, most of HRP's income is received as cash. Surplus funds are held on short term fixed interest rate deposit with institutions with low credit risk ratings. Risks relating to interest rates are managed by budgeting conservatively for investment income. HRP has no borrowings and no finance leases.

HRP is exposed to a credit risk of £2.0m trade debtors (2015: £1.6m). The risk is not considered significant since major customers are known to HRP or are required to pay for services in advance and provisions against bad debts are minimal.

HRP is subject to market risk in that the defined benefit pension fund holds investments. Plans are in place to fund the past service deficit, as detailed in Note 8.

HRP is subject to credit and market risk in its investment portfolio (note 13). These risks are mitigated by investing only in investment grade bonds and by using a professional investment manager.

HRP is not subject to any significant foreign currency risk.

## 25. Post balance sheet events

The financial statements were approved by the Accounting Officer and Trustees on 20 June 2016 and authorised for issue on 29 June 2016.