



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

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

FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

Trustees' Report

Trustees

Charles Mackay (Chairman)
Sir Alan Reid KCVO (Deputy Chairman)
Sophie Andreae DSG FSA
Dawn Austwick OBE
Ian Barlow DL
Liz Cleaver (since 27 May 2011)
General the Lord Dannatt GCB CBE MC DL
Sue Farr
John Hamer OBE (until 26 May 2011)
Jonathan Marsden LVO FSA
Sir Trevor McDonald OBE
Sir Adrian Montague CBE
Malcolm Reading

Executive Board

Michael Day (*Chief Executive and Accounting Officer*)
John Barnes
Tania Fitzgerald
Gina George
Rod Giddins (until 8 April 2011)
Paul Gray (since 8 August 2011)
Colonel Richard Harrold OBE (since 18 April 2011)
Danny Homan
Graham Josephs

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)

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, Olympics, Media and Sport to manage the palaces on his behalf. It is responsible for the care, conservation and presentation to the public of the unoccupied royal palaces: HM Tower of London, Hampton Court Palace, Kensington Palace State Apartments, the Banqueting House at Whitehall and Kew Palace with the Royal Kitchens & Queen Charlotte's Cottage.

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

Objectives and activities

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

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

Our Cause

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

Our work is guided by four principles:

Guardianship

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

Discovery

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

Showmanship

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

Independence

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

Trustees' Report (continued)

Five major strategic aims to face the challenges of the future

In setting Historic Royal Palaces' aims and planning our activities, the Trustees have given due consideration to the Charity Commission's general guidance on public benefit and also to its supplementary public benefit guidance on fee charging and advancing education.

1. Give the palaces the care they deserve

We are guardians of five of the nation's most important historic sites. Two are World Heritage Sites, four are Scheduled Ancient Monuments, and one is a Grade I listed building. Our responsibility covers the fabric of the buildings, 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 run extensive direct education programmes at all our sites. We are giving particular attention to outreach and community involvement activities, to exploiting the full potential of our website www.hrp.org.uk, and to contributing to the national celebrations for The Queen's Diamond Jubilee and the Olympics in 2012.

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 are giving particular attention at the moment 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)

Achievements and Performance

1. Give the palaces the care they deserve

- We have continued our programme of major conservation projects in buildings, interiors and contents, estates and landscapes
- The five-year project to transform Kensington Palace and its gardens was completed in March 2012.
- At the Tower of London conservation work on the Flint Tower and adjoining section of curtain wall was completed
- A two-year programme of conservation works to Great Hall Court and surrounding building ranges at Hampton Court was completed
- Also at Hampton Court, a major electrical upgrade in the Queen's and Prince of Wales' apartments was completed which will enable more imaginative lighting schemes in future exhibitions
- Eight ironwork students, supervised by a specialist metals conservator, surveyed the Tijou screens at Hampton Court as part of a wider project to conserve the metalwork over the next twelve years
- The Surveyor of the Fabric Department has led a team in the conservation and restoration of the Georgian Royal Kitchens at Kew
- A Research Strategy Board and Research Management Team have been established to oversee and manage original research in fields ranging from medieval archaeology to cutting-edge scientific conservation techniques. This is in support of our ambition to be awarded Independent Research Organisation status by the UK Research Councils
- Total spend of £20.0m in the Statement of Financial Activities (SOFA) represents an increase of 20% from the previous year. The increase is due mostly to the investment in the re-development of Kensington Palace and the re-presentation of the Crown Jewels.

2. Transform the way visitors explore their story

- We were honoured that Her Majesty The Queen re-opened the transformed Kensington Palace on 15 March. New permanent displays have been arranged as 'story zones' each branching off a central space
- The first permanent exhibition in the re-opened palace is 'Victoria Revealed' which tells the story of Queen Victoria's life in some of the rooms she occupied until her accession, largely in her own words
- In the Queen's State Apartments a new temporary exhibition explores the tragic end of the Stuart dynasty
- The world of the 1720s court has been brought to life with theatre and games in the Georgian King's State Apartments
- The final story in Kensington Palace's 300-year history is a new temporary display of dresses belonging to Diana, Princess of Wales
- In October, Rapunzel joined the 'Disney Princess royal court' at a celebration at Kensington Palace, preceded by the first ever Disney parade in London
- Her Royal Highness The Princess Royal opened the re-presented Crown Jewels at the Tower of London. The exhibition tells the story of coronation in our nation's history and uses the most modern techniques to improve the display of these world famous symbols of British Monarchy
- At the Tower of London we opened to the public the previously inaccessible North Wall Walk and the Brick Tower, which now houses the Royal Beasts exhibition. This exhibition gives visitors the opportunity to experience the sights, sounds and smells of the animals in the Royal Menagerie, kept at the Tower of London for over 600 years
- The Fusilier Museum, which tells the fascinating stories of the British infantry regiment that was raised at the Tower of London in 1685, re-opened after a major capital re-development offering a further free attraction for our visitors
- A provocative new art exhibition opened at Hampton Court; 'The Wild, The Beautiful and The Damned' which explores the nature of beauty, sexual politics and power at the court of Charles II

Trustees' Report (continued)

- Award winning dynamic lighting technology was used to create a vivid colour replacement to protect the original Abraham tapestries during building works on Great Hall Court at Hampton Court
- We built on our experimental work to present King Henry VIII dining on food cooked in the historic kitchens at Hampton Court over Christmas
- We showcased a weekend called 'The Other Palace' in which interpretation moved to 1689 and the visit of William and Mary to Hampton Court. The weekend included Restoration theatre, music, a fully-dressed carriage, dancing and beautifully-clad aristocrats
- During the summer of 2011 we carried out a trial opening of the Banqueting House aimed at attracting more day visitors. The palace was open every day with a programme of live interpretation, outreach activities and a 'pop-up' café in the Main Hall
- This continued development of the visitor experience resulted in our achievement of the highest ever composite results for "staff friendliness/ helpfulness" and "enjoyment of visit" in the summer visitor survey
- Total spend across the headings of Public Access and Interpretation and Learning in the SOFA of £33.2m represents an increase of 23% over the previous year. This increase also relates mostly to the Kensington Palace project.

3. Have wider impact in the world

- The transformation of Kensington Palace includes a new Clore Learning Centre which provides a dedicated space for school groups, family learning and local community activities. Community groups worked with us to craft and curate items for the exhibitions at the palace
- We received a first Sandford Award for heritage education at Kensington Palace
- The Palace Explorers projects continued at Kensington Palace and latterly at the Tower of London. The programme reaches out to intergenerational groups and schools through traditional and digital means
- We have developed our first schools partnership – extending a two-way relationship with a local primary school at each of our three main sites and are developing a range of external partnerships, among them the National Gallery and the Parliament Education service
- We started a successful collaboration with the National Heritage Ironwork Group for their annual student bursaries funded by the Heritage Lottery fund's skills for the future programme
- We have grown both the number and range of our education and outreach & community involvement activities for which sponsorship continues to rise
- The month of October saw citizenship ceremonies being held at all five palaces for the first time
- Hampton Court visitor services were invited to join a European project, working with French and Norwegian museums using new technologies to improve museum access for deaf people
- Our experimental programmes continued at Hampton Court: 'All the King's Fools' in which actors with learning difficulties played the parts of Tudor 'natural fools' was integrated into both the daily interpretation and education programmes. It was supported by seminars showcasing our findings to academics and heritage professionals
- Curators wrote a number of papers in the year, including submissions to the Society of Antiquaries, the National Portrait Gallery and King's College as well as articles for the national press and contributing to HRP books. Several media appearances through the year helped promote our work to national and international audiences
- The 'Dashing Dog Show' held at Kensington Palace in June saw over 200 pets and their owners have fun and help raise money for the Kensington Palace project
- Online viral games continue to engage and help spread our stories to a global audience. Our newest game, *William's Hot Chocolate Challenge*, was launched in January
- The palaces continue to feature as filming locations. Highlights include the major feature film, 'Jack the Giant Killer', due for release in summer 2012, and popular television programmes such as 'Time Team' at Kew Place and the 'Great British Bake Off' at Hampton Court
- The Tower of London provided the setting for a Diamond Jubilee-themed documentary 'This Royal Land' filmed in 3D for Sky Arts and presented by HRP Trustee, Sir Trevor McDonald

Trustees' Report (continued)

- A new BBC documentary series looking at the world of women at court in the 17th Century was filmed across the palaces to tie in with our exhibition, 'The Wild, The Beautiful and The Damned' at Hampton Court. The series was presented by Chief Curator, Lucy Worsley, with contributions from other curators
- The Royal Wedding in April last year provided us with an unparalleled opportunity to reach an international audience. Online content included YouTube videos; *Royal Wedding Dresses* and *Royal Wedding Cakes*, and 'the other royal weddings' blog which offered a chance to discover spectacles, scandals and romances of royal weddings past.

4. Build one organisation united behind our Cause

- After our three-yearly Investors in People re-assessment in June 2011 we retained our IIP status but have also been formally recognised as a Bronze Investor in People, achieving a ranking within the top 3% of all IIP-recognised organisations
- The response rate for our biennial staff survey, conducted in September 2011, increased to 87%. It returned excellent results showing staff opinion continues a positive upward trend and people believing HRP is a great place to work
- Improved leadership scores in the survey also evidenced developing leadership capability
- We achieved a 12% increase in the number of volunteer hours during the year, reaching a total of 28,207 hours
- This was also a year of significant volunteer recruitment and we took on an additional 70 volunteers to help with the newly opened Kensington Palace, in addition to taking on 30 new volunteers to help with opportunities at the Tower of London supporting Membership and the Education Team
- We invested in staff at Kensington Palace with an intensive programme of training, and new uniforms designed by Jaeger, to ensure five-star service when the palace re-opened in March
- We also supported ongoing change programmes at the Tower of London and Hampton Court, designed to continue to improve the way frontline staff are managed and developed and to progress our five-star customer journey.

5. Generate the money to make it all possible

- We attracted 3.41 million visitors to our palaces in 2011/12, which was an increase of 4% on 2010/11, despite the fact that Kensington Palace was closed for the last quarter of the year
- Visitor numbers through the Travel Trade exceeded 1 million for the first time, and income grew by 19% reaching £12.4m
- Our Retail business had another good year generating income growth of 8% and improved gross margins. The shops at Kensington Palace performed particularly well with early sales boosted by the Royal Wedding and the opening of the new shop adding to growth at the end of the year. The main Tower Shop underwent a major refurbishment and has performed strongly since re-opening for the February half-term break
- Success in fund raising took us closer to completing our first £20m fundraising campaign, a highlight being the achievement of target for the Kensington Palace project, and success in attracting a major sponsor for the re-presentation of the Crown Jewels
- The number of HRP members reached 47,200 at the year end, an increase of over 20% from last year. Membership activity contributed £1.1m of income to our work (2010: £0.9m)
- Despite the closure during the year of some functions spaces for conservation work, income from the functions and events business overall grew by 13% with the Tower of London in particular seeing an increase in both the number of functions and the average fee.

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

Trustees' Report (continued)

Financial Review

The number of visitors that spent a day out at one of our palaces in 2011/12 increased by 4% to 3.41m, the highest number since 1998/99 and the second highest total over the past 20 years. We welcomed the highest number of visitors to the Tower of London in records stretching back over 30 years.

Admissions income for 2011/12 was £42.8m – 62% of total income.

This increase to income has been added to by another strong year for the retail and functions & events businesses, income from catering & other concessions and sponsorship, all of which contributed to a 15% increase in generated funds. Fundraising has had another successful year; attracting generous donations for our major projects. Income from grants and donations in the year has increased by 16% from 2010/11.

All of this activity was achieved within budgeted expenditure and we have maintained our free reserves target of £5m.

The Charity has one wholly owned trading subsidiary, Historic Royal Palaces Enterprises Limited. Further details are set out in Note 2.

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.

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 2012.

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

Restricted funds (£4m)

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

Unrestricted funds

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

- **Fixed asset fund (£11.8m)**

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

Trustees' Report (continued)

- **Designated funds** (£10.9m)

Funds have been designated out of general funds to protect long-term commitments to major projects. £4.9m has been designated to complete projects in 2013 that were underway in 2012, including funds for the completion of the café on the wharf at the Tower of London. £2.4m is designated towards the re-presentation of the Baroque Palace at Hampton Court, a series of projects to be completed over the coming 3-5 years, and a designation of £1m has been made towards the cost of conserving the Banqueting House, work that is due to take place in 2016/17. £0.7m has been set aside for the development of a garden designed for children and families at Hampton Court. The remainder includes designations for strategic developments, including Learning and Digital.

- **Pension plan** (£1.9m 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. Following the October 2009 triennial actuarial valuation, there was a reduction in the employers' contributions required to meet the ongoing liabilities of the scheme. A revised eight-year plan was agreed to recover the historic deficit, with an increase in annual payments to £336,000. Both of these changes were implemented from October 2010. HRP's strategic planning process allows for the pension payments to the scheme to be made from planned income each year, and therefore there is no requirement to ring fence an amount equal to the full deficit from other reserves to cover this liability. The FRS17 liability, calculated for accounting purposes, at March 2012 is £1.9million (March 2011: £1.0million). Details of the retirement benefit scheme are disclosed in Note 8 to the accounts.

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

Equal opportunities policies

HRP is committed to a policy of equality of opportunity in all areas of employment, including recruitment, training, performance management and promotion. To encourage diversity in the workplace, formal policies 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.

Consultation with, and provision of information to, employees

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

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.

Trustees' Report (continued)

During 2011/12 63% of supplier invoices were paid within 30 days of date of invoice (67% in 2010/11) and 75% within 40 days (77% in 2010/11). 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 18.

Report of the Remuneration Committee

Membership

The membership of the Remuneration Committee during 2011/12 consisted of five Trustees. John Hamer (Chairman) retired from the Committee with effect from 25th May 2011. He was replaced as Chairman by General the Lord Dannatt who served on the Committee throughout the year. Sue Farr and Jonathan Marsden also served on the Committee throughout the year and Liz Cleaver was appointed to the Committee with effect from 28th September 2011.

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 2011, most Directors received a 1.75% 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.

One Director who commenced employment shortly after the Annual Salary Review did not receive a further increase to his starting salary.

In addition, the Directors received a performance-related bonus for the 2010/11 period. These bonuses were awarded consistently with the Directors' performance-related bonus scheme that was introduced in August 2001 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 2011/12 period have been accrued and will be paid in accordance with the agreed scheme.

The underlying principles, design and operation of this performance related bonus scheme were reviewed by the Committee during the year. The Committee concluded that the scheme was working well, remained 'fit for purpose' and that no changes were necessary at this time

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

Charles Mackay
Chairman of the Board of Trustees
18th June 2012

Hampton Court Palace
Surrey
KT8 9AU

Governance Statement

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 The Queen on the advice of the Secretary of State. Four Trustees are appointed by The Queen, of whom three are ex officio appointments: The Director of the Royal Collection; The Keeper of the Privy Purse; and The Lord Chamberlain. The Lord Chamberlain may choose to relinquish his appointment, in which case The Queen may appoint someone to take his place, as currently. The remaining seven are appointed by the Secretary of State, two of whom must be the Constable of the Tower of London and the Chairman of the Campaign Board.

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

The Audit Committee is a sub-committee of the Board of Trustees. It meets three times a year (in March, June & November) and 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), Sophie Andreae and Malcolm Reading. Anupam Ganguli is a co-opted member of the Committee.

Oversight of investment activities is provided by an Investment Committee, whose remit includes reviewing the balance of risk/return, and the impact of external factors. During the year the committee comprised four Trustees; Sir Adrian Montague (Chairman), Charles Mackay, Sir Alan Reid and Ian Barlow, and two members of the Executive Board; Michael Day and Tania Fitzgerald. The Committee meets twice a year, usually in July and November.

Remuneration policy for the Chief Executive and Directors of HRP is agreed by the Remuneration Committee which usually meets three times a year. The committee was chaired by John Hamer until his retirement from the Board in May 2011 after which Lord Dannatt became Chair. Other Trustees who served on the Committee were Sue Farr, Jonathan Marsden and Liz Cleaver (from September 2011).

The Trustee Board agreed in July 2011 that the Nominations Committee should become a permanent committee, to review Trustee succession annually and to ensure the appropriate balance of competencies, skills, experience and diversity on the Trustee Board. Membership of the permanent committee includes the Chairman, the Deputy Chairman, Chair of Remuneration Committee and two other Trustees. For the year ended 31 March 2012 this was; Charles Mackay (Chairman of Committee), Sir Alan Reid, Lord Dannatt, Dawn Austwick and Sue Farr. Since being established as a permanent committee, it has only met once.

Governance Statement (continued)

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. The Chairman of this Board is Ian Barlow and two other Trustees (Sue Farr and Sir Trevor McDonald) also serve on it. Other Campaign Board members are external people with expertise in this area.

Further Trustee input to HRP's work comes through Project Advisory Groups where Trustees work with members of the Executive Team to oversee 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 85%. There was 100% attendance at Nominations Committee, 92% average attendance at each of Audit and Remuneration Committee meetings and 75% at Investment Committee.

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

	Board	Audit Committee	Investment Committee	Remuneration Committee	Nominations Committee
Charles Mackay	7/7		2/2		1/1
Sir Alan Reid	5/7		1/2		1/1
Sophie Andreae	6/7	3/3			
Dawn Austwick	7/7	3/3			1/1
Ian Barlow	7/7		1/2		
Liz Cleaver	4/5			1/1	
General the Lord Dannatt	6/7			3/3	1/1
Sue Farr	7/7			2/3	1/1
Jonathan Marsden	6/7			3/3	
Sir Trevor McDonald	5/7				
Sir Adrian Montague	3/7		2/2		
Malcolm Reading	7/7	2/3			

HRP has an Executive Board of eight Directors which is chaired by the Chief Executive. The Executive Board's role is to work with Trustees to develop and deliver the Cause and Strategy.

The Board's performance

The effectiveness of the Trustee Board and its Committees is formally reviewed each year. Every third year Trustees complete a detailed questionnaire and in the intervening two years the Chairman holds an update 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. Trustees have concluded that the effectiveness of the Board and its committees has remained at a very high level over the last year.

Governance Statement (continued)

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, projects & expenditure, monitoring performance, 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, the Trustees hold a separate meeting 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, and any significant issues with, major projects are also provided at each meeting.

Minutes from meetings of committees of the Board are reviewed by Trustees with Committee Chairs.

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 expenditure of more than 10% on any project are also referred to the Board for approval.

Audit 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.

Corporate governance

The palaces in HRP's care are owned by 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 the Department for Culture, Media & Sport to manage the palaces on his behalf. HRP was reclassified as a Public Corporation on 1st April 2005.

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.

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. Reports are supported with data, including comparisons to other organisations in our sector where applicable.

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

Governance Statement (continued)

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 and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in HRP for the year ended 31 March 2012 and up to the date of approval of the Annual Review and Accounts, and accords with HM Treasury guidance.

Internal Audit is responsible for the ongoing examination of and the reporting on the adequacy and effectiveness of HRP's risk management process. The Head of Internal Audit provides an annual report to the Chief Executive Officer (CEO)/Accounting Officer and the Audit Committee on the adequacy and effectiveness of the risk management process, internal control and corporate governance in the year. His opinion for the year to March 2012 was that HRP has a good framework of risk management, control and governance.

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

- The Internal Audit Department takes a risk-based approach to audits and operates in compliance with Government Internal Audit standards (except where this is impractical for this small department);
- Progress in implementing internal audit recommendations is monitored by the Executive Board and the Audit Committee;
- The organisation has a project assessment and approval process which requires risk assessments to be done on all major projects;
- The Finance Director has been appointed Senior Information Risk Owner, and takes responsibility for the management of information risk;
- The Security Adviser provides an annual internal and external security threat analysis which is reported to the Board;
- Regular reviews are made of health and safety, environmental and security risks, and the implementation of related policies and procedures. An annual report is provided to the Board;
- A fraud risk profile is updated annually by Directors and reviewed by the Audit Committee;
- New activities and changes to existing processes are routinely reviewed to ensure that adequate controls are in place;
- The IT systems and network are managed in compliance with BS7799 information security standard (except where this is impractical for this small department);
- 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.

The Executive Board:

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

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

Governance Statement (continued)

The Audit 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.

At 31 March, HRP had one 'red' status risk on the risk register which was: a major unpredictable event that shifts visitor/trading activity significantly or has significant cost implications. This risk has ongoing 'red' status due to the possible scale of impact and the continuing likelihood 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. In addition the risk status relating to the delivery of major projects was also increased to 'red' for a period of the year due to tight deadlines and some pressure on budgets, however most have now been delivered successfully.

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 2015. This also involved identifying key strategic risks and opportunities;
- The ten-year vision for the organisation, setting out its broad ambitions in each of the main strategic aims was updated;
- As part of the new process of reviewing risk management in certain areas of HRP's work in greater depth, the Audit Committee received presentations on risk management in Media & Public Relations, General Procurement and IT;
- All relevant policies were updated to incorporate the provisions of the Bribery Act 2010 and the changes were communicated to all staff;
- The Security Adviser conducted a formal annual security inspection of all palaces and departments. No major problems were found;
- An advisory visit from the Security Service took place in March 2012 and this concluded that security was of a good standard and appropriate measures for further improvement were in hand;
- Work towards Payment Card Industry (PCI) Data Security Standards and Security Policy Framework compliance has continued to progress. Our PCI status has been changed from 'in progress' to 'committed' during the year;
- An independent specialist carried out a review of our IT audit needs and their recommendations will form the basis of a plan for providing assurance from 2012/13;
- Internal Audit ran further fraud awareness training in the year;
- The staff health & safety handbook was updated and new sections added to support our environmental objectives. In addition, a health & safety 'hub' was set up on the HRP intranet;
- New guidance was issued to all fire wardens to improve the monthly fire safety checks.

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 control issues have arisen during the course of 2011/12.

Charles Mackay
Chairman of the Board of Trustees
18th June 2012

Michael Day
Chief Executive and Accounting Officer

Statement of Responsibility

Statement of Trustees' responsibilities

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

Charles Mackay
Chairman of the Board of Trustees
18th June 2012

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, Olympics, 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
Chief Executive and Accounting Officer
18th June 2012

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

I have audited the financial statements of Historic Royal Palaces for the year ended 31 March 2012. 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 Board of 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 the 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, Governance Statement and Statement of Responsibility to identify material inconsistencies with the audited financial statements. 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 resources expended and incoming resources recorded in the financial statements have been applied to the purposes intended 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 resources expended and incoming resources recorded in the financial statements have been applied to the purposes intended 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 2012 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.

Opinion on other matters

In my opinion:

- the information given within the Trustees' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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
- 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.

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

Date: 28th June 2012

Consolidated Statement of Financial Activities

for the year ended 31 March 2012

	Note	Unrestricted funds £000	Restricted funds £000	Total 2012 £000	Total 2011 £000
INCOMING RESOURCES					
Incoming resources from generated funds:					
Voluntary income					
Grants and donations	5	132	3,579	3,711	3,197
Activities for generating funds					
Retail income		10,441	-	10,441	9,711
Functions and events		5,186	-	5,186	4,579
Licences and rents		3,009	-	3,009	2,814
Sponsorship		1,701	-	1,701	588
		20,337	-	20,337	17,692
Investment income		478	-	478	377
Incoming resources from charitable activities:					
Admissions		42,767	-	42,767	39,445
Concessions		1,777	-	1,777	1,558
Total incoming resources		65,491	3,579	69,070	62,269
RESOURCES EXPENDED					
Costs of generating funds:					
Fundraising		918	-	918	946
Retail activities		8,466	-	8,466	7,918
Other commercial activities		2,692	-	2,692	2,642
		12,076	-	12,076	11,506
Charitable activities:					
<i>Give the palaces the care they deserve</i>		18,199	1,786	19,985	16,716
<i>Transform the way visitors explore their story:</i>					
Public access		20,224	3,992	24,216	19,398
Interpretation and learning		8,840	120	8,960	7,622
<i>Have a wider impact in the world</i>		4,490	-	4,490	4,021
Governance costs	4	428	-	428	480
		52,181	5,898	58,079	48,237
Pension finance (income)/costs	8	(507)	-	(507)	(58)
Total resources expended	3	63,750	5,898	69,648	59,685
Net incoming/(outgoing) resources before transfers		1,741	(2,319)	(578)	2,584
Actuarial (loss)/gain on pension plan	8	(1,955)	-	(1,955)	1,830
Net movement in funds		(214)	(2,319)	(2,533)	4,414
Fund balances brought forward at 1 April	5	26,033	6,360	32,393	27,979
Fund balances carried forward at 31 March	5	25,819	4,041	29,860	32,393

The amounts shown above derive from continuing activities. There were no recognised gains or losses other than those disclosed above. The notes on pages 21 to 41 form an integral part of these accounts.

Consolidated and Charity Balance Sheets as at 31 March 2012

		Group 2012	Charity 2012	Group 2011	Charity 2011
	Note	£000	£000	£000	£000
<i>Fixed assets:</i>					
Intangible assets	9	37	37	62	62
Tangible assets	10	8,428	8,428	5,573	5,573
Heritage assets	11	5,172	5,172	4,975	4,975
		13,637	13,637	10,610	10,610
<i>Current assets:</i>					
Stocks - goods for resale		1,532	-	1,321	-
Debtors	12	4,498	5,388	3,741	4,049
Short-term cash deposits		18,000	18,000	23,000	23,000
Cash at bank and in-hand		7,330	6,539	4,854	3,973
		31,360	29,927	32,916	31,022
<i>Creditors:</i>					
Amounts falling due within one year	13	13,160	11,727	9,844	7,950
Net current assets		18,200	18,200	23,072	23,072
Total assets less current liabilities		31,837	31,837	33,682	33,682
<i>Provision for liabilities and charges</i>	14	110	110	275	275
Net assets excluding Pension Plan liability		31,727	31,727	33,407	33,407
<i>Pension Plan liability</i>	8	1,867	1,867	1,014	1,014
Net assets including Pension Plan liability		29,860	29,860	32,393	32,393
Unrestricted funds		25,819	25,819	26,033	26,033
Restricted funds		4,041	4,041	6,360	6,360
Total funds	5	29,860	29,860	32,393	32,393

These financial statements were approved by the Trustees and the Accounting Officer on 18th June 2012 and were signed on their behalf by:

Charles Mackay
Chairman of the Board of Trustees

Michael Day
Chief Executive and
Accounting Officer

The notes on pages 21 to 41 form an integral part of these accounts.

Consolidated Cash Flow Statement for the year ended 31 March 2012

	2012 £000	2011 £000
Cash flow statement		
Net cash inflow from operating activities (note A below)	1,186	2,422
Returns on investment and servicing of finance:		
Interest received	478	377
Taxation paid	(3)	(3)
Gift aid from prior year	-	4
Investing activities:		
Purchase of tangible assets	(4,120)	(636)
Purchase of intangible assets	(9)	(30)
Purchase of heritage assets	(57)	(43)
Proceeds from sale of fixed assets	1	-
Management of liquid resources:*		
Net sale/(purchase) of short-term deposits	5,000	(8,000)
Increase/(Decrease) in cash	2,476	(5,909)

<i>Note A : Reconciliation of net incoming resources to net cash inflow from operating activities</i>	2012 £000	2011 £000
Net (outgoing) /incoming resources from charitable and trading activities	(578)	2,584
Interest receivable	(478)	(377)
Taxation	1	3
Pension scheme: non-cash movements	(1,955)	1,830
Donated heritage assets	(140)	-
Depreciation	1,127	1,521
Loss on disposal of fixed assets	173	51
(Increase)/ Decrease in stocks	(211)	22
(Increase) in debtors	(757)	(1,036)
Increase in creditors: current liabilities	3,316	326
(Decrease) in provisions for liabilities and charges	(165)	(127)
Increase/(Decrease) in pension plan liability	853	(2,375)
Net cash inflow from operating activities	1,186	2,422

<i>Analysis of net funds</i>	2012 £000	2011 £000	Change in year £000
Cash at bank and in hand	7,330	4,854	2,476

* Liquid resources include term deposits of less than a year

Notes to the Consolidated Accounts for the year ended 31 March 2012

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* published in March 2005, applicable accounting standards and the Charities Act 2011. The financial statements have been prepared under the historic 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. No separate statement of financial activities has been presented for the Charity alone as permitted by paragraph 397 of the SORP.
- c) **Basis of consolidation**
The Group accounts consolidate HRP and its subsidiary undertaking, HRPE, which has a co-terminous year end. Consolidation has been carried out on a line-by-line basis.
- d) **Funds**
Incoming resources and resources expended are allocated to particular funds according to their purpose.
Unrestricted fund - the unrestricted fund includes income from admissions, donations and other income received without restriction including retained profits of HRPE. Unrestricted funds are available for use at the discretion of the Trustees in furtherance of the general objectives of the charity. Trustees may earmark unrestricted funds for a particular project or use, without restricting or committing the funds legally. Such amounts are known as designated funds.
Restricted funds - restricted funds include those receipts which are subject to specific restrictions imposed by donors, including grants towards specific conservation and improvement projects undertaken at the palaces.
- e) **Incoming resources**
All incoming resources are included in the SOFA when the Group is legally entitled to the income and the amount can be quantified with reasonable accuracy. The following specific policies apply to categories of income:
- Grants - where related to performance and specific deliverables, are accounted for as the Group earns the right to consideration by its performance. Where income is received in advance of performance its recognition is deferred and included in creditors. Where entitlement occurs before income is received the income is accrued.
 - Gifts in kind - where donated to the Group are included as income at market value at the time of receipt.

Notes to the Consolidated Accounts for the year ended 31 March 2012

1 Accounting Policies (continued)

f) Resources expended

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

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

g) Intangible fixed assets

From 1 April 2006 intangible fixed assets costing more than £5,000 are capitalised and included at cost. Prior to 1 April 2006 assets costing more than £2,000 were capitalised and included at cost. From 1 April 2003 bought-in software licences are capitalised within intangible assets.

h) Tangible fixed assets

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

Notes to the Consolidated Accounts for the year ended 31 March 2012

1 Accounting Policies (continued)

i) Heritage Assets

SORP 2005 defined an additional category of assets: Heritage Assets. These are defined as assets of historical and artistic importance that are held to advance preservation, conservation and the educational objectives of the 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 11.

j) 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.

k) Stocks

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

l) 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.

m) 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.

n) 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. A Group personal pension scheme based on defined contributions was established for new members of staff with effect from this date. The cost to HRP is the contributions paid during the year.

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

o) 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 65% of VAT incurred by HRP is irrecoverable.

Notes to the Consolidated Accounts for the year ended 31 March 2012

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. 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.

	2012 £000	2011 £000
Profit and loss account		
Turnover (activities for generating funds)	18,732	16,504
Cost of sales (costs of generating funds)	(3,747)	(3,578)
Gross profit	14,985	12,926
Administrative expenses	(9,651)	(8,950)
Interest receivable	1	-
Net profit	5,335	3,976
Amount passed as Gift Aid to HRP	(5,334)	(3,978)
Taxation	(1)	(3)
Retained in subsidiary	-	(5)
Balance Sheet as at 31 March 2012	2012 £000	2011 £000
Stocks - goods for resale	1,532	1,321
Debtors	1,881	882
Cash	790	881
Current liabilities	(4,203)	(3,084)
Net assets	-	-
Share capital and reserves	-	-

Notes to the Consolidated Accounts for the year ended 31 March 2012

3. Total resources expended

	Total direct costs £000	Allocation of support costs £000	Total 2012 £000	Total 2011 £000
Costs of generating funds				
Generating the money to make it possible				
Fundraising	845	73	918	946
Retail activities	7,682	784	8,466	7,918
Other commercial activities	2,495	197	2,692	2,642
	11,022	1,054	12,076	11,506
Charitable expenditure				
<i>Give the palaces the care they deserve</i>	18,581	1,404	19,985	16,716
<i>Transform the way visitors explore their story:</i>				
Public access	21,868	2,348	24,216	19,398
Interpretation and learning	8,238	722	8,960	7,622
<i>Have a wider impact in the world</i>				
Governance costs (see Note 4)	401	27	428	480
	53,314	4,765	58,079	48,237
Pension finance (income)/costs	(507)	-	(507)	(58)
Total	63,829	5,819	69,648	59,685
Resources expended include charges for:			Total 2012 £000	Total 2011 £000
Auditors' remuneration:				
Audit	- HRP		26	26
	- HRPE		18	18
	- HRPE (in 2010)		-	(1)
The auditors did not provide any non-audit services				
Hire of:				
Computers			108	121
Plant and machinery			110	85
Other			406	316
Depreciation written off owned fixed assets:				
Tangible			1,093	1,486
Intangible			34	35
Corporation tax			1	3

Notes to the Consolidated Accounts for the year ended 31 March 2012

4. Support and governance costs

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

	Human Resources £000	Information Systems £000	Finance Department £000	Employee Services £000	Manage- ment Costs £000	Total 2012 £000	Total 2011 £000
Costs of generating funds							
Fundraising	13	26	21	4	9	73	77
Retail activities	131	276	243	37	97	784	761
Other commercial activities	31	65	69	9	23	197	206
Charitable expenditure							
<i>Give the palaces the care they deserve</i>	203	425	569	58	149	1,404	1,308
<i>Transform the way visitors explore their story:</i>							
Public access	439	921	539	126	323	2,348	2,235
Interpretation and learning	130	274	185	37	96	722	696
<i>Have a wider impact in the world</i>	31	65	136	9	23	264	250
Governance costs	6	12	3	2	4	27	31
Total	984	2,064	1,765	282	724	5,819	5,564

The bases of apportionment in the above table are:

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

Governance costs

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

	Total 2012 £000	Total 2011 £000
Internal and external audit	203	206
Trustee costs	9	30
Production of annual report	5	8
Management costs	184	205
Support costs	27	31
	428	480

Notes to the Consolidated Accounts for the year ended 31 March 2012

5. Total funds

	Funds as at 1 April 2011	Incoming resources	Resources expended	Revaluations	Transfers between funds	Funds as at 31 March 2012
	£000	£000	£000	£000	£000	£000
Unrestricted funds						
General (Free) reserves	5,000	62,504	(61,865)	-	(639)	5,000
Designated funds	13,165	-	-	-	(2,248)	10,917
Fixed assets	8,882	-	-	-	2,887	11,769
Pension plan	(1,014)	2,987	(1,885)	(1,955)	-	(1,867)
Total	26,033	65,491	(63,750)	(1,955)	-	25,819
Restricted funds						
Kensington Palace Development	3,018	1,733	(4,715)	-	-	36
Donated assets	1,728	140	-	-	-	1,868
Kew Kitchens	834	-	(834)	-	-	-
Middle Drawbridge project at the Tower of London	646	-	(40)	-	-	606
Fortress project at the Tower of London	-	1,457	-	-	-	1,457
Projects at HCP	104	158	(262)	-	-	-
Other	30	91	(47)	-	-	74
Total	6,360	3,579	(5,898)	-	-	4,041
Total funds	32,393	69,070	(69,648)	(1,955)	-	29,860

Designated funds

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

- £4.9m to complete projects in 2012/13 that were underway in 2011/12, including funds for the completion of the café on the wharf at the Tower of London
- £2.4m is designated towards the re-presentation of the Baroque Palace at Hampton Court, a series of projects to be completed over the coming 3-5 years
- £1m towards the cost of conserving the Banqueting House, work that is due to take place in 2016/17
- £0.7m has been set aside for the development of a garden designed for children and families at Hampton Court

Transfers between funds

As set out in our Reserves policy on page 7, 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. £10.4m of last year's designation was spent and new designations of £8.2m created, being a net transfer out of £2.2m.

Notes to the Consolidated Accounts for the year ended 31 March 2012

5. Total funds (continued)

Analysis of net assets between funds

Fund balances of the Group and Charity at 31 March 2012 are represented by:

	Unrestricted funds £000	Restricted funds £000	2012 £000	2011 £000
Intangible assets	37	-	37	62
Tangible assets	8,428	-	8,428	5,573
Heritage assets	3,304	1,868	5,172	4,975
Net current assets	16,027	2,173	18,200	23,072
Provisions	(110)	-	(110)	(275)
Pension plan liability	(1,867)	-	(1,867)	(1,014)
Total net assets	25,819	4,041	29,860	32,393

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 £706 (2011: £981) for the year ending 31 March 2012. Expenses were reimbursed for 3 Trustees (2011: 5). 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:

	2012 FTE	2011 FTE
Fundraising	9	8
Retail activities	90	83
Other commercial activities	21	21
<i>Give the palaces the care they deserve</i>	140	133
<i>Transform the way visitors explore their story:</i>		
Public access	303	294
Interpretation and learning	90	87
<i>Have a wider impact in the world</i>	21	19
Governance	4	4
Support costs	61	60
Total	739	709

The aggregate payroll costs of these staff were as follows:

	2012 £000	2011 £000
Wages and salaries	21,997	20,899
Loss of office	5	1
Ex gratia payments	22	37
Social security costs	2,049	1,902
Pension costs	2,471	2,767
Total	26,544	25,606
Agency staff	299	306
Total	26,843	25,912

Notes to the Consolidated Accounts for the year ended 31 March 2012

7. Staff numbers and costs (continued)

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

		2012 No. of staff	2011 No. of staff
£60,001	to £70,000	22	18
£70,001	to £80,000	1	2
£80,001	to £90,000	-	1
£100,001	to £110,000	2	2
£110,001	to £120,000	1	2
£120,001	to £130,000	3	2

Excluding the Chief Executive, there were 29 staff during the year earning in excess of £60,000 (2011: 27), 15 were in a defined benefit scheme (2011: 16) and 14 were in a defined contribution scheme (2011: 11) where the employer contributions were £82,928 (2011: £78,933).

The aggregate emoluments of the Chief Executive were as follows:

	Age	Remuneration	Pension Contributions made to Group Personal Pension Plan
Michael Day	59	£151,037	£11,170

The emoluments of the Chief Executive in 2010/11 totalled £149,952 (excluding pension benefits).

8. Retirement benefits (Group & Charity)

a) Defined Benefit Pension Scheme

The Charity operates a defined benefit scheme in the UK. The scheme is closed to new entrants. As a consequence the current service cost calculated under the projected unit method can be expected to increase over time, as the average age of the membership increases. A full actuarial valuation was carried out at 1 October 2009 and updated to 31 March 2012 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

Following the 1 October 2009 actuarial valuation, the employer agreed a contribution rate of 26.5% of pensionable salary (including 1.5% payable by members). The employer also contributes towards the cost of the scheme's general administration and the insurance cost of death in service benefits. The employer, with approval from the trustees, has agreed to pay £28,000 per month to fund the past service deficit. This is anticipated to continue until September 2018. These contributions were calculated by the Scheme Actuary on the basis set out in the scheme's Statement of Funding Principles and Recovery Plan.

Notes to the Consolidated Accounts for the year ended 31 March 2012

8. Retirement benefits (continued)

Present values of scheme liabilities, fair value of assets and surplus /(deficit)

	31/03/2012	31/03/2011	31/03/2010
	£'000	£'000	£'000
Fair value of scheme assets	49,183	45,535	41,061
Present value of scheme liabilities	51,050	46,549	44,450
(Deficit) in scheme	(1,867)	(1,014)	(3,389)
Unrecognised surplus	-	-	-
(Liability) to be recognised	(1,867)	(1,014)	(3,389)

Reconciliation of opening and closing balances of the present value of the scheme liabilities.

	Period Ending 31/03/2012	Period Ending 31/03/2011
	£'000	£'000
Scheme liabilities at start of period	46,549	44,450
Current service cost	1,885	1,918
Interest cost	2,586	2,468
Contributions by scheme participants	107	111
Actuarial losses /(gains)	1,234	(1,236)
Benefits paid and death in service insurance premiums	(1,311)	(1,162)
Scheme liabilities at end of period	51,050	46,549

Reconciliation of opening and closing balances of the fair value of scheme assets

	Period Ending 31/03/2012	Period Ending 31/03/2011
	£'000	£'000
Fair value of scheme assets at start of period	45,535	41,061
Expected return on scheme assets	3,093	2,526
Actuarial (losses)/ gains	(721)	594
Contributions by the Employer	2,480	2,405
Contributions by scheme participants	107	111
Benefits paid and death in service insurance premiums	(1,311)	(1,162)
Fair value of scheme assets at end of year	49,183	45,535

The actual return on the scheme assets over the period ending 31 March 2012 was £2,372,000.

Notes to the Consolidated Accounts for the year ended 31 March 2012

8. Retirement benefits (continued)

Total expense recognised in Statement of Financial Activities (SOFA)

	Period Ending 31/03/2012 £'000	Period Ending 31/03/2011 £'000
Current service cost	1,885	1,918
Interest cost	2,586	2,468
Expected return on scheme assets	(3,093)	(2,526)
Total expense recognised in SOFA	1,378	1,860

Analysis of amounts recognised in fund movements

	Period Ending 31/03/2012 £'000	Period Ending 31/03/2011 £'000
Difference between expected and actual return on scheme assets:		
Amount: (loss)/gain	(721)	594
Experience gains and losses arising on the scheme liabilities:		
Amount: (loss)/gain	(358)	563
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:		
Amount: (loss)/gain	(876)	673
Total amount recognised in fund movements		
Amount: (loss) / gain	(1,955)	1,830

The cumulative amount of actuarial gains and losses recognised in fund movements since adoption of FRS17 is (£4,973,000) (a loss).

Assets

	31/03/2012 £'000	31/03/2011 £'000	31/03/2010 £'000
Equity	31,424	32,304	29,040
Corporate Bonds	6,874	6,597	5,909
Gilts	10,802	6,597	5,926
Other	83	37	186
Total assets	49,183	45,535	41,061

None of the fair values of the assets shown above include any of the Employer's own financial instruments or any property occupied by, or other assets used by, the Employer.

Notes to the Consolidated Accounts for the year ended 31 March 2012

8. Retirement benefits (continued)

Assumptions

	31/03/2012	31/03/2011	31/03/2010
	% per annum	% per annum	% per annum
Rate of discount	4.80%	5.50%	5.50%
Inflation (RPI)	3.25%	3.60%	3.70%
Salary increases	3.50%	4.10%	4.20%
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	n/a	3.60%	3.70%
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.50%	n/a	n/a
Allowance for pension in payment increases of RPI or 5% p.a. if less	3.15%	3.50%	3.60%
Allowance for commutation of pension for cash at retirement	None	None	None

The mortality assumptions adopted at 31 March 2012 imply the following life expectancies:

	2012	2032
Male retiring at age 60 in	26.8	28.8
Female retiring at age 60 in	29.1	31.2

Expected long-term rates of return

The long-term expected return on gilts, bonds and cash is determined by reference to UK long dated government and corporate bond yields at the balance sheet date. The long-term expected rate of return on equities is based on the rate of return on gilts with an allowance for out-performance.

The expected long-term rates of return applicable for each period are as follows

	Period commencing 01/04/2011 % per annum	Period commencing 01/04/2010 % per annum
Equity	7.40%	6.50%
Corporate Bonds	5.50%	5.50%
Gilts	4.40%	4.50%
Other	4.40%	4.50%
Overall for scheme	6.69%	6.06%

Notes to the Consolidated Accounts for the year ended 31 March 2012

8. Retirement benefits (continued)

Amounts for the current and previous four years

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Fair value of scheme assets	49,183	45,535	41,061	28,365	32,183
Present value of scheme liabilities	51,050	46,549	44,450	31,576	35,064
Surplus /(deficit) in scheme	(1,867)	(1,014)	(3,389)	(3,211)	(2,881)
Experience adjustment on scheme assets	(721)	594	9,154	(8,007)	(2,271)
Experience adjustment on scheme liabilities	(358)	563	(523)	(535)	(884)

The best estimate of contributions to be paid by the Employer to the scheme for the period beginning after 31 March 2012 is £2,110,000.

b) Defined Contribution Scheme

A group personal pension scheme based on defined contributions was set up for new members of staff with effect from October 2002. The cost for the year was £686,747 (2011: £604,379), with no outstanding contributions at the balance sheet date.

Notes to the Consolidated Accounts for the year ended 31 March 2012

9. Intangible fixed assets (Group & Charity)

	Software licences £000
Cost	
Balance as at 1 April 2011	208
Additions	9
Disposals	(5)
Balance as at 31 March 2012	212
Accumulated depreciation	
Balance as at 1 April 2011	146
Charge for the year	34
Disposals	(5)
Balance as at 31 March 2012	175
Net book value as at 31 March 2012	37
As at 31 March 2011	62

The net book value as at 31 March 2012 represents intangible fixed assets used for

	£000
Costs of generating funds	
Retail activities	2
Other commercial activities	-
Charitable expenditure	
<i>Give the palaces the care they deserve</i>	19
<i>Transform the way visitors explore their story:</i>	
Public access	14
Interpretation and learning	2
<i>Have a wider impact in the world</i>	-
	37

Notes to the Consolidated Accounts for the year ended 31 March 2012

10. 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
Cost							
Balance as at 1 April 2011	9,653	3,734	2,860	806	4,074	275	21,402
Additions	-	-	63	33	47	3,977	4,120
Disposals	(198)	(683)	(221)	(19)	(151)	(18)	(1,290)
Transfers within tangible assets	498	870	1,024	-	561	(2,953)	-
Balance as at 31 March 2012	9,953	3,921	3,726	820	4,531	1,281	24,232
Accumulated depreciation							
Balance as at 1 April 2011	7,213	2,854	2,222	534	3,006	-	15,829
Charge for the year	300	183	240	111	259	-	1,093
Disposals	(157)	(590)	(201)	(19)	(151)	-	(1,118)
Balance as at 31 March 2012	7,356	2,447	2,261	626	3,114	-	15,804
Net book value as at 31 March 2012	2,597	1,474	1,465	194	1,417	1,281	8,428
As at 31 March 2011	2,440	880	638	272	1,068	275	5,573
The net book value as at 31 March 2012 represents fixed assets used for							
Fundraising	-	-	6	1	-	2	9
Retail activities	338	513	-	12	112	25	1,000
Other commercial activities	27	41	21	3	9	48	149
Charitable expenditure:							
<i>Give the palaces the care they deserve</i>	-	123	63	114	373	45	718
<i>Transform the way visitors explore their story:</i>							
Public access	1,181	516	366	50	908	1,129	4,150
Interpretation and learning	1,051	281	1,001	10	12	25	2,380
<i>Have a wider impact in the world</i>	-	-	8	3	3	6	20
Governance costs	-	-	-	1	-	1	2
	2,597	1,474	1,465	194	1,417	1,281	8,428

Notes to the Consolidated Accounts for the year ended 31 March 2012

11. Heritage assets (Group & Charity)

	Total 2012 £000	No.	Total 2011 £000	No.	Total 2010 £000	No.	Total 2009 £000	Total 2008 £000
Cost and net book value								
Balance as at 1 April	4,975	438	4,932	436	4,882	429	3,350	3,350
Additions, at cost	57	3	43	2	44	6	32	-
Donated works, at deemed value	140	7	-	-	6	1	1,500	-
Balance as at 31 March	5,172	448	4,975	438	4,932	436	4,882	3,350

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	5,172	4,975	4,932	4,882	3,350
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11a) Further information on HRP's collections of heritage assets

The palaces are not owned by HRP, but by 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 3,400 accessioned items), an important collection of largely British royal and court ceremonial dress, established at Kensington Palace in 1984;
- The general collection (c 3,400 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.

In addition, HRP owns unaccessioned assets as follows:

- Architectural and archaeological materials salvaged or excavated from the palaces. These are primarily used as a research archive. There are around 4,000 boxes / larger objects of this nature;
- 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 and stored form part of the Royal Collection, owned by The Queen and administered by the Royal Collection Trust (c 8,000 items);
- The displays of arms, armour and related material at the Tower of London belong to the Royal Armouries (c 900 items).

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.

Notes to the Consolidated Accounts for the year ended 31 March 2012

11. Heritage assets (continued)

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.

11b) 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 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.

11c) 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.

12. Debtors

	Group 2012 £000	Charity 2012 £000	Group 2011 £000	Charity 2011 £000
Trade debtors	1,671	941	1,493	856
Amounts due from subsidiary	-	2,771	-	1,190
Other debtors	224	75	51	51
Prepayments and accrued income	2,603	1,601	2,197	1,952
	4,498	5,388	3,741	4,049

Within debtors, £450,000 of accrued income is due after more than one year (2011: nil).

Notes to the Consolidated Accounts for the year ended 31 March 2012

13. Creditors: amounts falling due within one year

	Group 2012 £000	Charity 2012 £000	Group 2011 £000	Charity 2011 £000
Trade creditors	2,111	1,902	1,483	1,272
Taxation and social security	586	584	689	565
Other creditors	20	13	60	21
Accruals	8,602	8,213	5,713	5,261
Deferred income	1,841	1,015	1,899	831
	13,160	11,727	9,844	7,950

Within creditors, nil is due after more than one year (2011: nil).

14. Provision for liabilities and charges (Group & Charity)

	Claims £000	Total £000
Balance as at 1 April 2011	275	275
Amounts used in year	(275)	(275)
New provisions in year	110	110
Balance as at 31 March 2012	110	110

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

15 Financial commitments under operating leases

	Group 2012 £000	Charity 2012 £000	Group 2011 £000	Charity 2011 £000
Operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:				
Land and buildings:				
More than five years	285	169	236	169
Others:				
Within one year	61	11	43	39
Between two to five years	136	123	166	86
Total payable within one year	482	303	445	294

Notes to the Consolidated Accounts for the year ended 31 March 2012

16. Capital commitments

	Group 2012 £000	Charity 2012 £000	Group 2011 £000	Charity 2011 £000
Contracted capital commitments as at 31 March 2012, for which no provision has been made in the accounts:				
Contracted	5,327	5,327	6,871	6,871
Authorised	14,327	14,327	20,637	20,637
	19,654	19,654	27,508	27,508

Commitments include £2,100,010 (2011: £4,601,595) relating to projects that are being funded by donations from third parties.

17. Contingent liabilities

Either HRP or the Secretary of State for Culture, Olympics, 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.

18. Related party transactions

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

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

Historic Royal Palaces (HRP) is contracted by the Secretary of State for Culture, Olympics, 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	2012 £000	2011 £000	Detail of transaction
HRP Inc	Michael Day (Chief Executive of HRP) is President of HRP Inc and Danny Homan (Director of HRP) is a Director of HRP Inc	217 (nil)	11 (nil)	Grant received by HRP from HRP Inc

Notes to the Consolidated Accounts for the year ended 31 March 2012

18. Related party transactions (continued)

Related party	Connected party	2012 £000	2011 £000	Detail of transaction
Institute of Conservation (ICON)	The Head of HRP Conservation and Collection Care is a Trustee of ICON	22 (nil)	18 (nil)	Payments made by HRP for Icon-administered interns working in CCC section.
Michael Page International plc (MPI)	Sir Adrian Montague (Trustee of HRP) was Chairman of MPI until December 2011	14 (nil)	8 (nil)	Payments made by HRPE and HRP for recruitment and temporary staff
Royal Armouries (RA)	General The Lord Dannatt (Trustee of HRP) is a Trustee of RA.	299 (159)	410 (178)	Payments made by HRP for goods and services provided at HM Tower of London.
		64 (57)	13 (nil)	Recovery of costs from RA for maintenance, goods and services provided by HRP at HM Tower of London
		-	5 (nil)	Payments made by HRPE for goods for resale.
Royal Collection Trust (RCT) and Royal Collection Enterprises Limited (RCEL) which is a wholly owned subsidiary of RCT	Sir Alan Reid (Trustee of HRP) is a Trustee of RCT and the Chairman of RCEL.	156 (8)	70 (18)	Charges made by RCEL to HRP and HRPE for the right to produce images of Royal Collection items and for the purchase of goods for resale.
	Jonathan Marsden (Trustee of HRP) is a Director of RCT and RCEL.	22 (10)	18 (9)	Recovery by RCT from HRP of a proportion of the costs of maintaining and recording Royal Collection and other items displayed in the palaces.
		23 (nil)	-	Charges made by HRPE to RCEL for the purchase of goods
Royal Household (RH)	Sir Alan Reid (Trustee of HRP) is Keeper of the Privy Purse and Treasurer to the Queen	20 (nil)	23 (2)	Payments made by HRP for rent and services provided by RH at Kensington Palace
		90 (nil)	-	Charges made by HRP to RH for alterations made to space
INSEAD	Charles Mackay (Chairman of HRP) was a member of the Board (until Jan 2011) and is a member of the Advisory Council	-	6 (nil)	Charge made to INSEAD UK Alumni Association by HRPE for event at HM Tower of London

Notes to the Consolidated Accounts for the year ended 31 March 2012

18. Related party transactions (continued)

Related party	Connected party	2012 £000	2011 £000	Detail of transaction
Charles Mackay	Charles Mackay (Chairman of HRP)	-	9 (nil)	Charge made by HRPE for personal event at HM Tower of London
Production Services Network Limited (PSN)	Charles Mackay (Chairman of HRP) was Chairman of PSN until April 2011	-	5 (nil)	Charges made by HRP for secretarial services at Kensington Palace
HRH Prince of Wales	HM The Queen	-	13 (nil)	Payments made by HRP for costs incurred by Clarence House for hosting Development event

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.

19. 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 £1.7m trade debtors (2011: £1.5m). 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 not subject to any significant foreign currency risk.

20. Post balance sheet events

The financial statements were approved by the Accounting Officer and Trustees on 18th June 2012 and authorised for issue on 28th June 2012.