



Historic Royal Palaces is the charity that looks after:

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

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

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

# FINANCIAL STATEMENTS

## AS AT 31 MARCH 2017



# Trustees' Report

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## *Trustees*

Rupert Gavin (Chairman)  
Zeinab Badawi (since 1 April 2016)  
Professor Sir David Cannadine  
Bruce Carnegie-Brown  
Ajay Chowdhury (since 1 August 2016)  
Liz Cleaver  
General the Lord Dannatt GCB CBE MC DL (until 31 July 2016)  
Val Gooding CBE (until 31 July 2016)  
General Sir Nicholas Houghton GCB CBE ADC Gen (since 1 August 2016)  
Jane Kennedy  
Jonathan Marsden CVO FSA  
Carole Souter CBE (since 1 May 2016)  
Sir Michael Stevens KCVO  
M Louise Wilson FRSA

## *Executive Board*

Michael Day CVO (*Chief Executive and Accounting Officer*)  
John Barnes  
Gina George  
Paul Gray  
Sue Hall (since 4 July 2016)  
Richard Harrold OBE  
Graham Josephs  
Jane McKeown (interim - until 3 July 2016)  
Daniel Wolfe

## *Registered Office*

Hampton Court Palace  
Surrey KT8 9AU

## *Auditors of the Group*

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

## *Bankers*

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

## *Solicitors*

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

## *Historic Royal Palaces: Registered Charity number 1068852*

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

## Trustees' Report (continued)

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Historic Royal Palaces (HRP) was established in 1998 as a Royal Charter Body with charitable status and is contracted by the Secretary of State for Culture, Media and Sport to manage the five London palaces on her behalf. It is responsible for the care, conservation and presentation to the public of the unoccupied royal palaces: HM Tower of London, Hampton Court Palace, Kensington Palace State Apartments, the Banqueting House at Whitehall and Kew Palace with the Royal Kitchens, Queen Charlotte's Cottage and the Great Pagoda. These palaces are owned by HM The Queen in right of Crown.

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

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

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

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

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

### Our Cause

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

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

#### **Guardianship**

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

#### **Discovery**

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

#### **Showmanship**

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

#### **Independence**

We have a unique task, and our own point of view. We challenge ourselves to find new ways to do our work. We are a financially independent charity and welcome everyone who can support our Cause.

# Trustees' Report (continued)

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

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

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

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

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

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

### 3. Have wider impact in the world

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

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

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

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

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

# Trustees' Report (continued)

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## Achievements and Performance

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

- We have continued our programme of major conservation projects in buildings, interiors and contents, estates and landscapes.
- Our entire built estate was re-surveyed between 2012 and 2013, and results show that 96 per cent of the estate is in a 'good' or 'fair' condition. The survey, carried out every five years, translated into a ten-year conservation plan across all sites.
- The major project to restore the Great Pagoda at Kew is now under way. The £5m restoration project will return the building to its original 1760s splendour, adorned with 80 iridescent dragons and incorporating its original verdigris and white colour scheme.
- After four years of research we have introduced 'SmartTint' to the windows of the Great Watching Chamber at Hampton Court Palace to reduce harmful light levels and protect the tapestries.
- The re-presentation of Hillsborough Castle continues apace. This year saw our conservators working with Royal Collection Trust to prepare paintings for the majestic re-hang in the State Entrance, Candlestick Hall and Throne Room. We have also started to create a conservation studio at Hillsborough.
- At the Tower, beautiful newly crafted wooden furniture was installed in the Chapel of St John the Evangelist in time for Easter 2017.
- This year the work of our Surveyor of the Fabric teams was recognised at several award ceremonies. The Base Court Conservation project won both the Building Conservation and 'Project of the Year' London Region awards, which were announced in late May 2016. The Queen's House and the Bell Tower conservation projects at the Tower of London have won RICS conservation awards for the London Region in 2017.
- Total spend of £22.9m in the Statement of Financial Activities (SOFA on page 23) represents a decrease of 15% from the previous year.

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

- There was magic in the air this year: all sorts of strange and wonderful things appeared in the grounds of Hampton Court Palace: a fiery dragon, mythical beasts, gnomes, a 3m-high Henry VIII, and a Victorian charabanc, to name but a few!
- After over five years in the making, the Magic Garden at Hampton Court Palace finally opened in May 2016. Designed by award-winning landscape architect Robert Myers, the Magic Garden draws inspiration from the Tudor palace and offers families a new and exciting way to explore elements of Hampton Court's history. Every element is designed for discovery and exploration. Curators advised on the history that inspired the design, the gardens team has grown and tended hundreds of child-friendly trees and plants to create a magnificent landscape, planting around 17,000 bulbs and 3,000 shrubs.
- 'Gnomes Unearthed' created with partners Wild in Art, saw decorated statues of Umbriel appear in different locations throughout the Gardens. The statues, each reflecting the character of the different spaces, were created with writers and artists working with local schools, youth and adult community groups.
- 'The Empress and the Gardener' exhibition celebrated the 300th anniversary of Capability Brown's birth. This showcased an extraordinary collection of watercolours, painted by Capability Brown's assistant, John Spyers. On loan from The Hermitage Museum in St Petersburg and on show to the public for the first time, the paintings provide a unique visual record of Hampton Court Palace and Gardens in the 18th century.
- Our splendid charabanc was launched at Hampton Court Palace on 4 July and ran daily tours of the Gardens over the summer. 'Tudor Rose' is a 24-seater horse drawn Victorian charabanc, made by a Master Coachmaker and authentic in every detail except for a hidden 21st-century modification that makes it wheelchair accessible.

## Trustees' Report (continued)

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- 'Encounters with the Past', our daily live programme at Hampton Court Palace launched at Easter 2016 and ran daily until the end of August, bringing the palace to life for visitors. A company of actors presented stories from different periods of Hampton Court's history including the Tudors, Shakespeare's 'King's Men' performing for James I and the Georgian Court.
- We staged a series of linked concerts during May and June in each of the Chapels Royal to celebrate HM The Queen's 90th Birthday. Following a concert of Purcell, Handel and Mozart at The Queen's Chapel, St James's Palace in May, the Choir of the Chapel Royal Hampton Court Palace performed 'Grant Her a Long Life', a programme of royal choral music from the 16<sup>th</sup> century to the present day. In June, the Choir of the Chapel Royal of St Peter ad Vincula at the Tower of London performed A Garland for the Queen, comprising works written during HM The Queen's lifetime.
- June also saw the launch of 'East Wall', our exciting two-year partnership with world-renowned choreographer Hofesh Shechter, London International Festival of Theatre and East London Dance. The project, part-funded by the Arts Council, is intended to develop up-and-coming young artists and the project is planned to culminate in a series of evening performances in the Tower Moat in summer 2018.
- Our first public archaeology project at Hillsborough Castle hit the headlines when children uncovered a 1,000-year-old female skeleton, on what turned out to be an ancient burial ground. Almost 400 volunteers took part, working alongside professional archaeologists.
- A new digital mission 'Saxons Attack the Tower' released in June - this is our sixth digital mission at Hampton Court Palace and the Tower of London.
- In July we launched an unusual new visitor experience based around the Banqueting House, the last remaining part of Whitehall Palace. From 1530 to its destruction in the great fire of 1698, this huge palace was the principal royal residence and seat of power. 'The Lost Palace', the result of two years' research into digital storytelling techniques, used binaural sound to give visitors the impression of being immersed in a living, resonating world. Headphone-wearing participants followed a GPS-guided audio tour throughout the modern streets of Whitehall, virtually exploring all the spaces that existed centuries before. 'The Lost Palace' won the 'Innovation' category of the Museums & Heritage Awards 2017 and will return to the Banqueting House in summer 2017.
- Throughout the year, the focus of our events programmes was on groups of adults and children together, as we work towards realising our ambition to be the most 'family friendly' destinations in heritage.
- Marking 20 years since the tragic death of Diana, Princess of Wales, our exhibition, 'Diana: Her Fashion Story' opened on 24 February 2017. The launch attracted worldwide media attention and 'Diana: Designing a Princess', a BBC Two documentary, attracted an audience of 1.3 million people - a record for a BBC Arts production. All advance tickets were snapped up, and the opening month was a sell-out. The two-year exhibition traces Diana's style journey from shy teenager to one of the most glamorous and celebrated women in the world. 25 of Diana's dresses are on display, including several now owned by Historic Royal Palaces, along with 13 fashion sketches and four famous portraits of the Princess by Mario Testino from her last official photo shoot for Vanity Fair in 1997.
- A highlight of the schools programme was this year's week-long 'Music at the Tower', held in June in partnership with Water City Music Festival of Arts. It began with a special programme to celebrate HM The Queen's official 90th birthday. Over 1,500 young people from schools across east London took part, with their families looking on. When not performing, participants took part in learning activities to discover more about the Tower.
- At the end of May 2016 we hosted our first ever series of Horrible Histories™ performances, 'Barmy Britain' at Hampton Court Palace. The eight-day run of ticketed daily shows in the East Front Gardens delighted family audiences with guts, gore and truly terrible puns. With over 12,500 people attending, we hope to repeat this success in 2017.
- In the autumn, we opened a Research and Development (R&D) Studio at Hampton Court, a new onsite facility enabling us to collaborate with contemporary artists in developing creative programming for the palaces. Examples of work supported by the R&D Studio include a collaboration with performance artist Scottee and playwright Mark Ravenhill culminating in 'Long Live Queen James', the first event in our Palace Pride series, held at the Banqueting House in February.

## Trustees' Report (continued)

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- Hampton Court Palace won the award for Best Historical House and/or Garden for Groups at the 20th Group Travel Awards, which are voted for by the public. The work of the Commercial Events team was recognised when HRP venues won an unprecedented three trophies at the Prestigious Venue Awards, again voted for by the public, including the splendidly-named prize for 'The World's Most Prestigious Venue' for Kensington Palace!

### 3. Have wider impact in the world

- We continue to make major investment in the development of learning & engagement, new creative programming across our sites, expanding our domestic market, and how all our work will be enabled digitally in the future. These strategic initiatives are coordinated through a philosophy that we call Audiences First, which has as its overarching objective the expansion of HRP's charitable reach and impact, significantly beyond the c4m visitors we welcome to our sites each year.
- Programmed events for families included our first 'big weekend' at Hillsborough; over four days visitors took part in a wide range of activities inside the palace and throughout the gardens. At Hampton Court Palace, The Great Garden Game saw around 500 adults and children a day romping through our self-guided activity trail. At Kew Palace, children made hats and listened to princesses recounting stories, while at Kensington families explored royal fashion rules. At the Tower the interactive family trail Story Scramble ran for ten days over Easter and entertained thousands of visitors.
- In another first -- this time in our adult programme -- we launched a MOOC (Massive Open Online Course) on 'Royal Food and Feasting', in partnership with Futurelearn and the University of Reading. This free, widely-accessible course for adults went live on 20 June with 15,000 people taking part, with a further 8,000 signing up for its second run over Christmas. A second course on a new subject is planned for 2017.
- On 5 October, General Sir Nicholas Houghton was installed as the 160th Constable of the Tower of London, in front of 600 spectators. Through live news broadcasts and other digital media (including our first use of Facebook Live) this unique ceremony reached an audience of millions.
- Television highlights throughout the year included 'Who Do You Think You Are?' in November, featuring Joint Chief Curator Tracy Borman, who helped 'Eastenders' star Danny Dyer to uncover his surprising connections to Thomas Cromwell, and ultimately King Edward III! Tracy also presented 'The Private Lives of the Tudors', a series filmed extensively at Hampton Court and broadcast on UKTV Yesterday Channel to accompany her new book of the same title. Joint Chief Curator Lucy Worsley presented the ambitious three-part series, BBC One's 'Six Wives of Henry VIII', broadcast in December.
- Among our new books for children, we co-published with Walker books the third Rex adventure book and a new pop-up Crown Jewels. The Story of the Gardens at Hampton Court Palace accompanied our Year of the Gardens. We co-published an updated, bespoke edition of Diana, Her Fashion Story with Pitkin to accompany the exhibition at Kensington. And we were delighted when Time for Fun, our first activity comic, won Best New Children's Publication of the Year 2016 at the ACE awards.
- '500 Words', BBC Radio 2's annual short story competition for children aged 5-13 was launched in January by Radio 2 breakfast show presenter Chris Evans, assisted by special guests Chief Yeoman Warder Alan Kingshott and Joint Chief Curator Lucy Worsley. The final will also take place at the Tower of London and be broadcast live on Radio 2.
- 'Enlightened Princesses: Caroline, Augusta, Charlotte and the Shaping of the Modern World, a collaborative exhibition and publication project between Historic Royal Palaces and the Yale Center for British Art, opened in New Haven, USA in February and will transfer to Kensington Palace in June 2017. The exhibition explores the role of the three princesses in the promotion of the arts and sciences in 18th-century Britain. An accompanying Yale book of the same name has been edited by Senior Curator Joanna Marschner and contains a collection of essays by our curators, as well as other notable scholars from around the world.
- Time Explorers Challenge at Kensington Palace: This unique project aims to inspire teachers and children from all London's primary schools. This year we collaborated with the Royal Opera House's Trailblazers Programme on the theme of Young Victoria, which produced some extraordinary work. The overall winner was Kenningtons Primary Academy in Ockendon, Thurrock.

## Trustees' Report (continued)

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- Curious Stories – for this three-year children's literacy programme supported by the John Lyons charity, we worked with community groups, children and their parents near Kensington Palace.
- Tudors on Tour at Bestival: over the August Bank holiday, Historic Royal Palaces (Tudor) flags flew over Lulworth Castle in Dorset during this famous three-day family festival. Over 15,000 people participated in the Tudor experience, with fantastic feedback from families.
- Sensory Palaces, our free programme that supports local people living with dementia and their carers. Fortnightly sessions at Hampton Court Palace were fully booked with plans for more sessions at other palaces. In July we hosted Dementia Action Alliance's flagship event during Dementia Awareness Week, and are establishing a network with six other local heritage sites to share best practice.
- In January 2017 we achieved success with our first independent application for funding as an Independent Research Organisation (IRO). The Arts and Humanities Research Council (AHRC) awarded Alden Gregory, Historic Buildings Curator, an Early Career Leadership Fellowship for an 18-month research project, Portable Palaces: Royal Tents and Timber Lodgings. As the AHRC only funds excellent academic research, this shows that we are capable of the highest standards in innovative and rigorous research.

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

- We were very pleased to learn in December that Historic Royal Palaces has now attained the Investors in People Gold standard. This is an independent recognition of our work over the past 12 years since we put ourselves forward for the first assessment.
- We welcomed the first of our three interns funded by the Clothworkers' Foundation, who will be working on the conservation of tapestries, and marked the start of the second of our ten-year State of the Interior Estate treatment strategy and plan. This brings our total intern number to 18.
- We now have 20 apprentices working across a range of disciplines.
- Our volunteer programme had another successful year in 2016/17 with a total of 39,203 volunteer hours contributed, an increase of 2% (2015/16: 38,456). Our volunteer numbers have stayed fairly steady with 338 volunteers providing support across our six palaces (2015/16: 347).
- We provided two one-off volunteering opportunities at Hillsborough Castle – with 401 volunteers helping with an archaeology dig in July and 80 volunteers helping to plant Spring bulbs in October.
- This year saw the roll-out of our new Digital Asset Management System, named 'Bowyer' after William Bowyer, Keeper of the Records at the Tower of London in the 16th century. This is a repository for all our production and publication quality images, video and audio assets, which will prove a great resource for all staff.

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

- We have experienced our highest ever numbers of visitors that spent a day out at one of our palaces – 4.427m visits for 2016/17.
- Admissions income was £57.2m – 62% of total income.
- Income from retail, functions & events, catering & other concessions, and sponsorship totalled £27.2m, an increase of nearly 12% from £24.4m in 2015/16.
- This was the penultimate year in our five-year fundraising campaign, 'The Next Chapter in our Story'. The wonderfully generous support we have received from many different sources throughout 2016/17 means that we are well placed to reach our £30m goal by March 2018.
- We were delighted to welcome House of Fraser as the lead supporter of the restoration of the Great Pagoda at Kew. The contract was signed as part of a celebration of Anglo-Chinese relations. This ceremony, which included a blessing of the Great Pagoda itself, was attended by representatives of the Foreign & Commonwealth Office, the Embassy of the People's Republic of China and municipal government of Nanjing, together with guests from House of Fraser and its parent company Sanpower.

## Trustees' Report (continued)

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- Our appeal in support of the transformation of Hillsborough Castle received considerable support from the Foyle Foundation and the Wolfson Foundation, two of our most generous and long-standing supporters. Meanwhile, at Kensington Palace, Estée Lauder Companies Inc. continued their support for our exhibition programme through their sponsorship of Diana: Her Fashion Story.
- Membership proved an attractive choice for many of those visiting the Magic Garden and we end the year, one of the most successful ever, with 96,000 members, our highest total to date. The support of our Patrons and American supporters remains as important as ever, and we were delighted to offer them a full programme of unique experiences during the year.
- In January 2017 we received the extremely welcome news that the Trustees of Heritage Lottery Fund had approved our application for a grant of £4.95m toward the Hillsborough Castle project. This grant – the result of a two-year application process and rigorous scrutiny – provides essential funds for our work to continue and a ringing endorsement of what we want to achieve at Hillsborough Castle and in Northern Ireland. Work began on site in late April 2017, and we expect to be fully open to the public in 2019.
- The strong financial performance in the year has meant that we are able to designate more funds towards the cost of projects within our ambitious strategy for the next three years and beyond.

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

### Future Plans

In 2017/18 we are embarking on the most far-reaching programme of capital development we have ever set out to achieve at Hillsborough, Kew, Kensington, the Tower and across all our digital work. Our public profile and reach continues to expand through our learning and engagement, creative programming and TV exposure.

We are maintaining our conservation programmes for buildings, collections, interiors and landscape.

We expect our visitor numbers to grow further and we continue to invest in more staff and the infrastructure to support them.

To achieve this ambition we are creating capacity by:

- Maintaining focus on the major projects and initiatives to which we are already committed
- Generating new income – for example through improving on line gift aid, developing membership, enhancing the catering offer
- Controlling operational expenditure

### 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 2017.

## Trustees' Report (continued)

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

### **Restricted funds (£8.8m)**

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

### **Unrestricted funds (£34.2m)**

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

- **Fixed asset fund (£13.0m)**

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

- **Designated funds (£24.1m)**

Funds have been designated out of general funds for long-term commitments to major projects. £3.6m has been designated to complete projects in 2017/18 that were under way in 2016/17. £6.3m has been designated to support our plans to develop Hillsborough Castle over the next two years. £3.2m is designated for longer term development work at the Tower of London, and 4&5 Tower Green in particular. £2.7m has been designated towards the work we are undertaking over the next year to the Great Pagoda at Kew. £1.7m is set aside for the final year of our work to implement our Digital strategy, and at Kensington Palace, funds of £3.8m have been set aside for longer term works on the Orangery Building. £2.3m is set aside for the longer term representation of the interior of the Banqueting House.

- **Pension plan (£7.9m 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, therefore there is no requirement to ring fence an amount equal to the full deficit from other reserves to cover this liability.

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

The pension liability at 31 March 2017, calculated for accounting purposes under FRS102, is £7.9 million (March 2016: £3.3 million). Details of the retirement benefit scheme are disclosed in Note 8 to the accounts.

### **Equal opportunities policies**

HRP is committed to a policy of equality of opportunity in all areas of employment, including recruitment, training, performance management and promotion. To encourage diversity in the workplace, formal policies on equal opportunities, disability and harassment have been developed and communicated to all staff. General training on these policy areas is provided to staff and specific training is provided in areas such as recruitment and performance appraisals. Equality policies and practices are regularly monitored and action plans developed, if appropriate, to deal with any specific issues. In addition, we have published a Diversity Strategy and Action Plan and are making progress in increasing the diversity of our workforce.

## Trustees' Report (continued)

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

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

### Investment policy

HRP's investment policy is as follows:

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

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

### Suppliers' payment policy

HRP observes the principles of the CBI Better Payment Practice code. The code requires bills to be paid in accordance with contractual obligations, or where no such conditions exist, within 30 days of the receipt of the goods or services, or the presentation of a valid invoice, whichever is the later. It is the policy of HRP to pay all invoices not in dispute in accordance with contractual terms.

Payments are made fortnightly and include all invoices received in Finance and due for payment by the time of the next payment run.

During 2016/17 68% of supplier invoices were paid within 30 days of date of invoice (65% in 2015/16) and 78% within 40 days (78% in 2015/16). 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 21.

### Environmental Sustainability

Energy management in historic buildings and estates is always challenging, but HRP continues to carry out a number of energy saving initiatives across our sites this year.

The figures for electricity consumption are 1% higher than the year before, which represents a good figure given the growth in business, more visitors and improvements such as the Magic Garden. This means that the electricity consumption per visitor is lower than last year and this has been achieved by up-grading plant and equipment with higher efficiency equipment in order to create value for the future. Other 16/17 initiatives include:

- At the Tower: replaced lighting throughout the New Armouries, the Moat and the White Tower for energy efficient LED lamps; upgraded belt driven fans to backward curve EC fans. This is new technology and will greatly improve energy use; installed a new more efficient Chiller in the New Armouries with a saving of 3350kWh per year and a new hot water control unit saving 32.5% on gas consumption during the trial period.
- At Hillsborough Castle a project has been completed to reinstate an old hydroelectric scheme. This will produce revenue generated from the sale of Renewable Obligation Certificates (ROCS).

## Trustees' Report (continued)

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- At Banqueting House the installation of bomb blast secondary glazing has improved the thermal efficiency of the building in the winter.
- At Hampton Court Palace there has been a continual replacement and up-grade to LED lighting. There have also been stricter controls on the use of portable heaters during the winter months.

HRP is committed to continue the progress that has been made over the years with water consumption, which has included: The installation of automated meter readings across the main palaces; this has enabled close monitoring of water leaks and allowed prompt repair.

HRP continues to focus on waste management and increased re-use and recycling with our waste management contractors, Total Support Services (TSS). All palaces serviced by TSS continue to reach 100% waste recycling or energy from waste over the last year.

The main aim of biodiversity conservation is to ensure that all life forms prosper through sympathetic, sustainable management. Underpinning this is recognition of the need to consider the conservation of biological diversity in all that we do within the gardens, estate, landscape and the built environment at HRP.

Biodiversity is a prime natural asset for HRP and everyone involved in the various sites, including staff, contractors, volunteers or visitors should be encouraged to work together to conserve and enhance the rich diversity of habitats and species. This will ensure that they are protected for the benefit and enjoyment of future generations so that HRP sites remain rich in wildlife.

HRP's environmental impact can be seen as the sum of the supply chain as a whole – and we are working towards a sustainable policy on procurement across the whole organisation. Our catering suppliers Ampersand only work with suppliers who are able to demonstrate clear policies designed to reduce their impact on the environment and they aim to work closely with each of their suppliers on this agenda and monitor their performance for continuous improvement.

## Report of the Remuneration Committee

### Membership

The membership of the Remuneration Committee during 2016/17 consisted of four Trustees. General the Lord Dannatt (Chairman) retired from the Committee with effect from 16 July 2016. He was replaced by General Sir Nicholas Houghton who was appointed to the Committee as Chairman with effect from 1 December 2016. Liz Cleaver, Jonathan Marsden and Louise Wilson all served on the Committee throughout the year.

### Policy statement

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

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

### Review of activity during the year

At the Annual Salary Review in August 2016, all 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.

## Trustees' Report (continued).

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In addition, the Directors received a performance-related bonus for the 2015/16 period. These bonuses were awarded consistently with the Directors' performance-related bonus scheme and reflected a very good year for HRP and its Directors. Actual bonus payments were calculated on the basis of the overall performance of the organisation and Directors' individual performance against agreed objectives. Performance-related bonuses for the 2016/17 period have been accrued and will be paid in accordance with the agreed scheme.

During the year the Committee reviewed and approved the Directors' Succession plans, which were subsequently discussed and approved by the main Trustee Board. The Committee also agreed the salary package of the new Chief Executive who will be taking up office in July 2017.

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

Rupert Gavin  
Chairman of the Board of Trustees  
16 June 2017

Hampton Court Palace  
Surrey  
KT8 9AU

# Governance Statement

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## The Governance framework

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

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

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

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

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

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

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

There are four sub-committees of the Board:

1. The Audit & Risk Committee formally reports annually to the Board on the adequacy of HRP's arrangements for risk management and internal control. During the year the following Trustees served on the committee: Sir Michael Stevens (Chair from 1 April 2016) Val Gooding (until 31 July 2016) and Ajay Chowdhury (from 1 August 2016). Carole Souter was appointed to serve on the committee from 18 May 2016. Marcus Boyle was a co-opted member from 20 July 2016.
2. Oversight of investment activities is provided by the Investment Committee, whose remit includes reviewing the balance of risk/return, and the impact of external factors. During the year the committee comprised the following Trustees: Rupert Gavin (Chair), Bruce Carnegie-Brown, Sir Michael Stevens and two members of the Executive Board: Michael Day and Sue Hall (from 4 July 2016). William Fall is a co-opted member of the committee.
3. Remuneration policy for the Chief Executive and Directors of HRP is agreed by the Remuneration Committee. The committee was chaired by General the Lord Dannatt (until 16 July 2016) and General Sir Nicholas Houghton (from 1 December 2016). Other Trustees who served on the committee were Liz Cleaver, Jonathan Marsden, and M Louise Wilson.
4. The Nominations Committee reviews Trustee succession and makes recommendations to the Board to ensure the appropriate balance of competencies, skills, experience and diversity on the Trustee Board. During the year the following Trustees served on the committee; Rupert Gavin

## Governance Statement (continued)

(Chair), Sir Michael Stevens, General the Lord Dannatt until 31 July 2016) and General Sir Nicholas Houghton (from 1 August 2016), Sir David Cannadine and Zeinab Badawi. Val Gooding served until 31 July 2016.

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

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

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

Attendance at Board and Committee meetings is monitored and discussed with each Trustee as part of the annual Board Effectiveness Review meetings. Attendance at Trustee Board meetings over the year was 94% (2016: 83%), Audit & Risk Committee 100% (2016: 73%), Investment Committee 83% (2016: 100%), Remuneration Committee 88% (2016: 90%) and Nominations Committee 100% (2016: 90%).

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

	Board	Audit and Risk Committee	Investment Committee	Remuneration Committee	Nominations Committee
Rupert Gavin	7/7	1 (as observer)	2/2	4/4 (as observer)	2/2
Zeinab Badawi (from 1/4/2016)	7/7				2/2
Sir David Cannadine	7/7				2/2
Bruce Carnegie-Brown (Re-appointed 1/1/2017)	7/7		1/2		
Liz Cleaver	7/7			3/4	
General the Lord Dannatt (until 31/7/2016)	3/3			3/3	
General Sir Nicholas Houghton (from 1/8/2016)	4/4			1/1	2/2
Val Gooding (until 31/7/2016)	2/3	1/1			
Ajay Chowdhury (from 1/8/2016)	4/4	3/3			
Jane Kennedy	7/7				
Jonathan Marsden	6/7			3/4	
Carole Souter (from 1/5/2016)	6/7	4/4			
Sir Michael Stevens	5/7	4/4	2/2		2/2
M Louise Wilson (Re-appointed 12/6/2016)	7/7			4/4	

## **Governance Statement (continued)**

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

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

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

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

Each year the Chairman produces a report covering all aspects of Board effectiveness, based on the process outlined above, updating the position on actions agreed the previous year and identifying actions to take forward in the current year. This report and its findings are discussed annually and actions agreed at a Board meeting. A full review and discussion with each Trustee was carried out in March 2017.

The Chairman concluded that effectiveness remained at a high level. Some recommendations for further improvement were made and agreed at the Board meeting on 17 May 2017.

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

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

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

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

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

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

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

A key decision taken by the Board during 2016/17 was the endorsement of the Round 2 funding application to the Heritage Lottery Fund for our plans for the development of Hillsborough Castle.

## **Governance Statement (continued)**

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Investment in projects approved in the year included the development at Hillsborough Castle, including the new car park, the conservation and representation of the Great Pagoda at Kew and a new digital visitor guide. There was agreement of a new lease and management agreement for Hillsborough Castle.

Trustees considered progress through strategic updates on Development, the work of the Curatorial team and the Learning & Engagement Strategy. The Board also considered the Digital Strategy that is transforming the way we engage with our audiences and the Historic Royal Palaces' approach to marketing.

Audit & Risk Committee agendas are similarly structured, considering matters of risk management, the external audit and internal audit plans and progress. Progress with all major projects is reported at each meeting using red/amber/green indicators to highlight the status of each project. The committee met four times in the year to March 2017

The Investment Committee met twice in the year. The committee reviewed HRP's investments at each meeting. The committee also gave its view to the Pension Scheme Trustees on scheme investment strategy.

HRP's second major fundraising campaign has the objective of raising £30m of income over five years, ending March 2018. The Campaign Board supported the achievement of this goal.

### **Corporate governance**

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

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

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

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

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

### **Quality of the data**

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

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

## Governance Statement (continued)

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### 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 on-going process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised & the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in HRP for the year ended 31 March 2017 and up to the date of approval of the Annual Review and Accounts, and accords with HM Treasury guidance.

Audit & Risk is responsible for the on-going examination of and the reporting on the adequacy and effectiveness of HRP's risk management process. The Head of Audit & Risk provides an annual report to the Chief Executive Officer (CEO)/Accounting Officer and the Audit & Risk Committee on the adequacy and effectiveness of the risk management process, internal control and corporate governance in the year. Her opinion for the year to March 2017 was that HRP has a good framework of governance, risk management and control which is sufficiently well embedded in most areas to support the achievement of HRP's objectives.

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

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

Strategic leadership of the risk management process comes from the Executive Board, and the Trustees and Accounting Officer oversee the process. The CEO reports annually to the Board of Trustees on the effectiveness of the internal control system established to ensure that the aims, objectives and key performance targets of HRP are achieved in the most economic and effective manner.

## Governance Statement (continued)

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The Executive Board:

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

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

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

At 31 March 2017, HRP had one 'red' status risk on the risk register:

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

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

**Conserve Our Sites** - This risk relates to the 10 year Goals in the 2025 Statement of Intent of the need to balance consideration of the short term - internal state of the estate and gardens currently being good; and the long term - we have fewer major projects focusing on conservation in our current 5-year project plan. The focus will return to 'conserve' once these projects/ programmes are complete in the second half of ten year plan.

**Legal Compliance** - General good compliance across HRP but amber because a Compliance Training audit in August 2016 noted weak controls around the ability to identify and evidence training. Management actions are making good progress to resolve this in the first quarter of 17/18.

**Health and Safety** - Relating to the Magic Garden - corrective work to be completed followed by review and approval by ROSPER (play specialists). Additional Health & Safety work is required on the panelling in the Cupola room at KP and HCP Privy Kitchen benches.

**The impact of Brexit, the new US Administration, and Collapse of the power sharing agreement in NI.** There remains uncertainty around long term impacts on the economy, staff morale, particularly EU staff, NI border controls and progress of negotiations with NIO.

Risks for the delivery of the 2017/18 annual operating plan include the ever present terrorism threat, increased international political uncertainty, impact of Brexit, continuing low interest rates and our own demanding and ambitious development programme. Financial contingency plans are in place to mitigate the impact of these risks, should they crystallise, such as the requirement to deliver a surplus to act as a contingency in the budget for the year.

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

- HRP's Strategic Plan has been updated for the three years to March 2020. This also involved identifying key strategic risks and opportunities for each department;
- The Statement of Intent, setting out demanding organisational ambitions, was updated to 2025, with associated goals to track delivery;
- The corporate and departmental risk management process has been reviewed and updated to align with HM Treasury and Institute of Internal Auditors Guidance based on the three lines of defence model and giving more robust risk information that flows from the front line right up the Board.

## Governance Statement (continued)

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- Co-sourced internal auditors were used for five audits requiring particular specialist knowledge;
- The fire and emergency planning adviser was able to conclude at the year end that HRP achieves a good standard of compliance with fire safety legislation and the protection of historic buildings and collections from fire;
- The health, safety and environment adviser was able to conclude that the management of health and safety and environmental legislation in HRP remains satisfactory;
- Health, safety and environment training modules, compliance management and policies were reviewed and recommendations for improvement made;
- The security adviser concluded that the general standard of security at HRP is good. Risk management mechanisms are in place to identify shortcomings and implement improvements to identified risks and threats;
- Information Asset Owner training continues, and Data Protection training is provided as an online training module;
- There have been no significant or reportable incidents of data loss in the year.

### Review of Effectiveness

The Trustees and Accounting Officer have responsibility for reviewing the effectiveness of the system of internal control. The review is informed by the work of the internal auditors and the Executive Board who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The Trustees and Accounting Officer have carried out this review through the mechanisms set out in the previous section. A plan to address any weaknesses and ensure continuous improvement of the system is in place.

### Significant internal control issues

No significant internal control issues have arisen during the course of 2016/17.

Rupert Gavin  
Chairman of the Board of Trustees  
16 June 2017

Michael Day CVO  
Chief Executive and Accounting Officer

# Statement of Responsibility

## Statement of Trustees' responsibilities

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

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

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

Rupert Gavin  
Chairman of the Board of Trustees  
16 June 2017

## Accounting Officer's responsibilities

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

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

Michael Day CVO  
Chief Executive and Accounting Officer  
16 June 2017

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

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I have audited the financial statements of Historic Royal Palaces for the year ended 31 March 2017. The financial statements comprise: the Consolidated Statement of Financial Activities, the Consolidated and Charity Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

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

## **Scope of the audit of the financial statements**

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

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

## **Opinion on regularity**

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

## **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of Historic Royal Palaces' affairs as at 31 March 2017 and of its net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Charities Act 2011 and Secretary of State directions issued with the approval of HM Treasury.

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

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## Opinion on other matters

In my opinion:

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

## Matters on which I report by exception

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

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

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

27 June 2017

## Consolidated Statement of Financial Activities for the year ended 31 March 2017

	Note	Unrestricted funds £000	Restricted funds £000	Total 2017 £000	Total 2016 (restated, note 3) £000
<b>INCOME</b>					
<b>Donations and legacies</b>					
Grants		-	2,775	2,775	2,987
Donations		2,464	15	2,479	2,361
Gifts in Kind		-	1,411	1,411	643
		<b>2,464</b>	<b>4,201</b>	<b>6,665</b>	<b>5,991</b>
<b>Income from other trading activities</b>					
Retail income		13,725	-	13,725	12,435
Functions and events		6,519	-	6,519	5,487
Licences and rents		3,905	-	3,905	3,470
Sponsorship		586	-	586	580
		<b>24,735</b>	<b>-</b>	<b>24,735</b>	<b>21,972</b>
<b>Investments</b>		<b>424</b>	<b>-</b>	<b>424</b>	<b>415</b>
<b>Income from charitable activities:</b>					
Admissions		57,176	-	57,176	55,736
Concessions		2,497	-	2,497	2,441
<b>Total income</b>	<b>5</b>	<b>87,296</b>	<b>4,201</b>	<b>91,497</b>	<b>86,555</b>
<b>EXPENDITURE</b>					
<b>Costs of raising funds:</b>					
Fundraising		705	-	705	714
Retail activities		11,131	-	11,131	10,670
Other commercial activities		3,277	-	3,277	3,475
Investment management costs		23	-	23	24
		<b>15,136</b>	<b>-</b>	<b>15,136</b>	<b>14,883</b>
<b>Expenditure on charitable activities:</b>					
Give the palaces the care they deserve		22,268	679	22,947	26,825
Transform the way visitors explore their story:					
Public access		26,498	851	27,349	26,684
Interpretation and learning		14,563	280	14,843	14,270
Have a wider impact in the world		5,461	2	5,463	5,570
	<b>9</b>	<b>68,790</b>	<b>1,812</b>	<b>70,602</b>	<b>73,349</b>
<b>Other</b>					
Defined Pension scheme net interest cost	8	116	-	116	231
<b>Total Expenditure</b>	<b>3</b>	<b>84,042</b>	<b>1,812</b>	<b>85,854</b>	<b>88,463</b>
<b>Net Income / (Expenditure)</b>		<b>3,254</b>	<b>2,389</b>	<b>5,643</b>	<b>(1,908)</b>
Actuarial (loss)/gain on pension plan	8	(4,628)	-	(4,628)	3,625
Net (losses)/gains on investments		(17)	-	(17)	-
<b>Net movement in funds</b>		<b>(1,391)</b>	<b>2,389</b>	<b>998</b>	<b>1,717</b>
<b>Fund balances brought forward at 1 April</b>	<b>5</b>	<b>35,594</b>	<b>6,419</b>	<b>42,013</b>	<b>40,296</b>
<b>Fund balances carried forward at 31 March</b>	<b>5</b>	<b>34,203</b>	<b>8,808</b>	<b>43,011</b>	<b>42,013</b>

The amounts shown above derive from continuing activities. There were no recognised gains or losses other than those disclosed above. The notes on pages 26 to 50 form an integral part of these accounts.

## Consolidated and Charity Balance Sheets as at 31 March 2017

	Note	Group 2017 £000	Charity 2017 £000	Group 2016 £000	Charity 2016 £000
<i>Fixed assets:</i>					
Intangible assets		29	29	25	25
Tangible assets	10	9,119	9,119	9,667	9,667
Heritage assets	11	8,010	8,010	6,459	6,459
Investments	12	9,641	9,641	9,347	9,347
		<b>26,799</b>	<b>26,799</b>	<b>25,498</b>	<b>25,498</b>
<i>Current assets:</i>					
Stocks - goods for resale		1,793	-	1,951	-
Debtors	13	4,375	5,103	4,024	4,822
Short-term cash deposits		15,000	15,000	15,000	15,000
Cash at bank and in-hand		19,004	17,839	13,640	12,680
		<b>40,172</b>	<b>37,942</b>	<b>34,615</b>	<b>32,502</b>
<i>Creditors: Amounts falling due within one year</i>	14	15,954	13,724	14,790	12,684
<b>Net current assets</b>		<b>24,218</b>	<b>24,218</b>	<b>19,825</b>	<b>19,818</b>
<b>Total assets less current liabilities</b>		<b>51,017</b>	<b>51,017</b>	<b>45,323</b>	<b>45,316</b>
<i>Creditors: Amounts falling due after more than one year</i>		-	-	7	-
<i>Provision for liabilities and charges</i>	15	62	62	12	12
<b>Net assets excluding Pension Plan liability</b>		<b>50,955</b>	<b>50,955</b>	<b>45,304</b>	<b>45,304</b>
<i>Pension Plan liability</i>	8	7,944	7,944	3,291	3,291
<b>Net assets including Pension Plan liability</b>		<b>43,011</b>	<b>43,011</b>	<b>42,013</b>	<b>42,013</b>
Unrestricted funds		34,203	34,203	35,594	35,594
Restricted funds		8,808	8,808	6,419	6,419
<b>Total funds</b>	5	<b>43,011</b>	<b>43,011</b>	<b>42,013</b>	<b>42,013</b>

These financial statements were approved by the Trustees and the Accounting Officer on 16 June 2017 and were signed on their behalf by:

Rupert Gavin  
Chairman of the Board of Trustees

Michael Day CVO  
Chief Executive and  
Accounting Officer

The notes on pages 26 to 50 form an integral part of these accounts.

## Consolidated Cash Flow Statement for the year ended 31 March 2017

	2017	2016
	£000	£000
Cash flows from operating activities		
Net cash provided by operating activities (Note A below)	6,397	2,619
Cash flows from investing activities:		
Purchase of tangible assets	(726)	(1,286)
Purchase of intangible assets	(18)	-
Purchase of heritage assets	(148)	(20)
Proceeds from sale of fixed assets	-	10
Purchase of investments	(2,400)	(1,582)
Redemption of investments	1,835	1,576
Interest received	424	415
Cash flows from financing activities:		
Net (purchase)/sale of short-term deposits	-	-
<b>Increase/(Decrease) in cash</b>	<b>5,364</b>	<b>1,732</b>

<i>Note A : Reconciliation of net incoming resources to net cash inflow from operating activities</i>	2017	2016
	£000	£000
Net incoming /(outgoing) resources from charitable and trading activities	5,643	(1,908)
Interest receivable	(424)	(415)
Pension scheme: non-cash movements**	25	(22)
Donated heritage assets	(1,411)	(643)
Depreciation	1,265	1,298
Loss on disposal of fixed assets	26	52
Decrease in fixed asset investments	254	317
(Increase)/Decrease in stocks	158	(200)
(Increase)/Decrease in debtors	(351)	3,276
Increase/(Decrease) in creditors: current liabilities	1,164	901
Increase/(Decrease) in long term creditors	(7)	(17)
Increase/(Decrease) in provisions for liabilities and charges	50	(26)
Other non-cash movements	5	6
<b>Net cash inflow from operating activities</b>	<b>6,397</b>	<b>2,619</b>

<i>Analysis of net funds</i>	2017	2016	Change in year
	£000	£000	£000
Cash at bank and in hand	<b>19,004</b>	<b>13,640</b>	<b>5,364</b>

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

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

The notes on pages 26 to 50 form an integral part of these accounts

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 1 Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Charity, Historic Royal Palaces (HRP), and its trading subsidiary, Historic Royal Palaces Enterprises Ltd (HRPE), together 'the Group'.

### a) Status of charity

HRP is a registered charity established by Royal Charter.

### b) Basis of preparation

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

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

### c) Basis of consolidation

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

### d) Funds

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

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

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

### e) Incoming resources

All incoming resources are included in the SOFA when the Group is entitled to the income, it is probable that the income will be received and the amount can be quantified with reliable accuracy. The following specific policies apply to categories of income:

- Grants - where related to performance and specific deliverables, are accounted for as the Group earns the right to consideration by its performance. Where income is received in advance of performance its recognition is deferred and included in creditors. Where entitlement occurs before income is received the income is accrued.
- Gifts in Kind - where donated to the Group, are included at market value at the time of receipt.
- Admissions - income recognised upon visitor entry.
- Retail and Catering - income recognised upon sale of the goods.
- Functions and Events - income is accounted for in the month that the event is due to take place.
- Licences and Rents - income is accounted for on a pro-rata basis over the period to which the rent relates.
- Sponsorship - income is accounted for evenly over the period of sponsorship.

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 1 Accounting Policies (continued)

### f) Resources expended

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

### g) Tangible fixed assets

From 1 April 2006 tangible fixed assets costing more than £5,000 are capitalised and included at cost. Prior to 1 April 2006 assets costing more than £2,000 were capitalised and included at cost. Assets are capitalised at a value net of VAT. All expenditure on repairing and maintaining the original fabric of the buildings and on non-revenue generating improvements is written off in the year incurred. All improvements to the fabric of the buildings, with the aim of raising or increasing revenue, are capitalised. New buildings constructed by the Charity are depreciated over a period of 20 years. Assets purchased by or gifted to the Charity's predecessors prior to September 1989 have not been capitalised.

Depreciation is provided to write off the cost of tangible fixed assets by equal instalments over their useful economic lives as follows:

New buildings	20 years
Building refurbishments	10 years
Fixtures and fittings	10 years
Plant and machinery	10 years
Furniture and equipment	10 years
Exhibitions	5 years
Vehicles	5 years
Computer software	5 years
Computer hardware	5 years

### h) Heritage Assets

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

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

Further information about HRP's total collection of heritage assets is set out in Note 11.

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 1 Accounting Policies (continued)

### i) Investments

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

### 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.

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

### 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. Fixed income investments are measured at amortised 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. Income from operating leases is recognised 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. The Charity has implemented the full reporting requirements of FRS 102: Employee Benefits in relation to the defined benefit scheme. The resulting deficit is treated as an unrestricted fund.

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

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 1. Accounting Policies (continued)

### o) Taxation

As a charity, the Charity is exempt from corporation tax under section 505 ICTA 1988. HRPE distributes 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 67% of VAT incurred by HRP is irrecoverable.

## 2. Historic Royal Palaces Enterprises Ltd

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

	2017	2016
	£000	£000
<b>Profit and loss account</b>		
Turnover (other trading activities)	22,293	19,567
Cost of sales (costs of raising funds)	(4,848)	(4,343)
<b>Gross profit</b>	<b>17,445</b>	<b>15,224</b>
Administrative expenses	(11,847)	(11,369)
Interest receivable	1	2
<b>Profit on ordinary activities before taxation</b>	<b>5,599</b>	<b>3,857</b>
Taxation	(7)	(8)
<b>Total profit for the financial year</b>	<b>5,592</b>	<b>3,849</b>
Amount distributed under Gift Aid to HRP	(5,592)	(3,849)
<b>Retained in subsidiary</b>	<b>-</b>	<b>-</b>
	2017	2016
	£000	£000
<b>Balance Sheet as at 31 March 2017</b>		
Stocks - goods for resale	1,793	1,951
Debtors	648	403
Cash	1,164	960
Current liabilities	(3,605)	(3,307)
Creditors due after more than 1 year	-	(7)
<b>Net assets</b>	<b>-</b>	<b>-</b>
<b>Share capital and reserves</b>	<b>-</b>	<b>-</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 3. Total expenditure

	Total direct costs £000	Allocation of support costs £000	Total 2017 £000	Total 2016 (restated) £000
<b>Costs of raising funds</b>				
Generating the money to make it possible:				
Fundraising	618	87	705	714
Retail activities	9,495	1,636	11,131	10,670
Other commercial activities	2,849	428	3,277	3,475
Investment management costs	23	-	23	24
	<b>12,985</b>	<b>2,151</b>	<b>15,136</b>	<b>14,883</b>
<b>Expenditure on charitable activities</b>				
Give the palaces the care they deserve	20,317	2,630	22,947	26,825
Transform the way visitors explore their story:				
Public access	22,493	4,856	27,349	26,684
Interpretation and learning	12,942	1,901	14,843	14,270
Have a wider impact in the world	4,937	526	5,463	5,570
	<b>60,689</b>	<b>9,913</b>	<b>70,602</b>	<b>73,349</b>
Pension finance (income)/costs	116	-	116	231
<b>Total</b>	<b>73,790</b>	<b>12,064</b>	<b>85,854</b>	<b>88,463</b>

*Restatement:* Membership sales are treated as Admissions income. The costs of the membership scheme have been categorised as Public access for consistency. These were previously treated as Fundraising costs, which has resulted in a restatement of the 2016 categorisation.

<b>Resources expended include charges for:</b>	Total 2017 £000	Total 2016 £000
Auditors' remuneration:		
Audit		
- HRP	40	42
- HRPE	18	18
The auditors did not provide any non-audit services		
Operating lease charges	692	678
Stock recognised as an expense	4,800	4,229
Impairment of stock (included in cost of sales)	139	114
Depreciation written off owned fixed assets:		
Tangible	1,251	1,281
Intangible	14	17
Corporation tax	7	8

## Notes to the Consolidated Accounts for the year ended 31 March 2017

### 4. Support costs

	Human Resources £000	Information Systems £000	Finance Department £000	Pension Department £000	Management Costs £000	Governance Costs £000	Total 2017 £000	Total 2016 (restated) £000
<b>Costs of raising funds</b>								
Fundraising	10	42	23	1	8	3	87	82
Retail activities	177	770	472	19	140	58	1,636	1,540
Other commercial activities	48	209	112	5	38	16	428	431
<b>Charitable expenditure</b>								
Give the palaces the care they deserve	258	1,123	933	28	203	85	2,630	2,729
Transform the way visitors explore their story:								
Public access	643	2,798	627	70	506	212	4,856	4,657
Interpretation and learning	221	962	447	24	174	73	1,901	1,771
Have a wider impact in the world	41	177	258	5	32	13	526	492
<b>Total</b>	<b>1,398</b>	<b>6,081</b>	<b>2,872</b>	<b>152</b>	<b>1,101</b>	<b>460</b>	<b>12,064</b>	<b>11,702</b>

The basis of apportionment for support costs is staff headcount (see note 7), with the exception of Finance Department which is based upon expenditure excluding payroll. There has been a restatement of the categorisation of costs in 2016 between Fundraising and Public access (see note 3).

<b>Governance Costs</b>	<b>2017</b> £000	<b>2016</b> £000
Internal and external audit	226	217
Trustee expenses and costs	17	20
Trustee and chairman recruitment costs	8	23
Production of annual report	4	4
Management costs	205	202
	<b>460</b>	<b>466</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 5. Total funds

	Funds as at 1 April 2016 £000	Incoming resources 2016/17 £000	Resources expended 2016/17 £000	Revaluations 2016/17 £000	Transfers between funds 2016/17 £000	Funds as at 31 March 2017 £000
<b>Unrestricted funds</b>						
<b>General (Free) reserves</b>	5,000	85,582	(82,303)	(17)	(3,262)	5,000
Designated funds	20,439	-	-	-	3,662	24,101
Fixed assets	13,446	-	-	-	(400)	13,046
Pension plan	(3,291)	1,714	(1,739)	(4,628)	-	(7,944)
<b>Total</b>	<b>35,594</b>	<b>87,296</b>	<b>(84,042)</b>	<b>(4,645)</b>	<b>-</b>	<b>34,203</b>
<b>Restricted funds</b>						
Donated assets	2,705	1,407	-	-	-	4,112
Hillsborough Castle	3,610	2,588	(1,583)	-	-	4,615
Gardens projects at Hampton Court Palace	61	15	(47)	-	-	29
Tower of London projects	-	25	(7)	-	-	18
Home Park Meadows project at Hampton Court Palace	23	-	(11)	-	-	12
Great Pagoda, Kew	-	80	(80)	-	-	-
Other projects	20	86	(84)	-	-	22
<b>Total</b>	<b>6,419</b>	<b>4,201</b>	<b>(1,812)</b>	<b>-</b>	<b>-</b>	<b>8,808</b>
<b>Total funds</b>	<b>42,013</b>	<b>91,497</b>	<b>(85,854)</b>	<b>(4,645)</b>	<b>-</b>	<b>43,011</b>

### Designated funds

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

- £3.6m to complete projects in 2017/18 that were underway in 2016/17
- £6.3m to support our plans to develop Hillsborough Castle over the next two years
- £3.8m for longer term works on the Orangery Building at Kensington Palace
- £3.2m for longer term development work at the Tower of London, and 4&5 Tower Green in particular
- £2.7m towards the cost of conserving and representing the Great Pagoda at Kew over the next year
- £2.3m for the longer term work to represent the interior of Banqueting House
- £1.7m for the final year of our work to implement our Digital strategy

### Transfers between funds

As set out in our Reserves policy on page 9, 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. £8.8m of last year's designation was spent, £2.8m undesignated, and new designations of £15.3m created.

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 5. Total funds (continued)

### Analysis of net assets between funds

Fund balances of the Group and Charity at 31 March 2017 are represented by:

	Unrestricted funds £000	Restricted funds £000	2017 £000	2016 £000
Intangible assets	29	-	29	25
Tangible assets	9,119	-	9,119	9,667
Heritage assets	3,898	4,112	8,010	6,459
Investments	9,641	-	9,641	9,347
Net current assets	19,522	4,696	24,218	19,825
Creditors > one year	-	-	-	(7)
Provisions	(62)	-	(62)	(12)
Pension plan liability	(7,944)	-	(7,944)	(3,291)
<b>Total net assets</b>	<b>34,203</b>	<b>8,808</b>	<b>43,011</b>	<b>42,013</b>

## 6. Remuneration of Trustees

None of the Trustees received any remuneration during the year in connection with services to the Charity or its subsidiary. Reimbursement of travel and subsistence expenses incurred by the Trustees whilst carrying out their responsibilities for the Charity totalled £5,776 (2016: £1,963) for the year ending 31 March 2017. Expenses were reimbursed for 12 Trustees (2016: 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:

	2017 FTE	2016 FTE (restated)
Fundraising	6	6
Retail activities	110	109
Other commercial activities	30	30
Give the palaces the care they deserve	161	160
Transform the way visitors explore their story:		
Public access	400	391
Interpretation and learning	137	132
Have a wider impact in the world	25	24
Support functions	116	97
<b>Total</b>	<b>985</b>	<b>949</b>

There has been a restatement of the categorisation of staff in 2016 between Fundraising and Public access (see note 3).

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 7. Staff numbers and costs (continued)

The aggregate payroll costs of these staff were as follows:

	2017 £000	2016 £000
Wages and salaries	32,563	30,845
Loss of office	37	30
Ex gratia payments	6	52
Social security costs	3,223	2,930
Pension costs	3,530	3,489
<b>Total</b>	<b>39,359</b>	<b>37,346</b>
Agency staff	658	450
<b>Total</b>	<b>40,017</b>	<b>37,796</b>

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

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

	2017 No. of staff	2016 No. of staff
£60,001 to £70,000	22	28
£70,001 to £80,000	14	7
£80,001 to £90,000	1	-
£90,001 to £100,000	1	1
£110,001 to £120,000	-	1
£120,001 to £130,000	4	3
£130,001 to £140,000	1	2
£140,001 to £150,000	1	-

Excluding the Chief Executive, there were 44 staff including directors during the year earning in excess of £60,000 (2016: 42), 14 were in a defined benefit scheme (2016: 16) where the employer contributions were £330,697 (2016: £331,614), and 30 were in a defined contribution scheme (2016: 26) where the employer contributions were £172,241 (2016: £148,279).

The aggregate emoluments of key management personnel were as follows:

	Age	Remuneration	Pension Contributions made to Group Personal Pension Plan	Staff Benefits
Michael Day CVO	64	£166,080	£nil	£1,473

The remuneration of the Chief Executive in 2015/16 was £164,529, with pension contributions of £11,149, and staff benefits of £1,309.

Excluding the Chief Executive, the total remuneration to the Executive Board was £897,898 (2016: £914,895) with pension contributions of £117,168 (2016: £109,951) and staff benefits of £5,224 (2016: £6,470).

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 8. Retirement benefits (Group & Charity)

### a) Historic Royal Palaces Pension Scheme

HRP operates a defined benefit scheme in the UK. The scheme is closed to new entrants. As a consequence the current service cost calculated under the projected unit method can be expected to increase over time, as the average age of the membership increases. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities.

A full actuarial valuation was carried out at 31 March 2015 and updated to 31 March 2017 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

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

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

	31/03/2017	31/03/2016	31/03/2015
	£'000	£'000	£'000
Fair value of plan assets	83,982	70,940	70,697
Present value of defined benefit obligation	91,926	74,231	77,635
(Deficit) in plan	(7,944)	(3,291)	(6,938)
<b>Defined benefit (liability) to be recognised</b>	<b>(7,944)</b>	<b>(3,291)</b>	<b>(6,938)</b>

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

	Period Ending 31/03/2017	Period Ending 31/03/2016
	£'000	£'000
Defined benefit obligation at start of period	74,231	77,635
Current service cost	1,621	1,719
Expenses	118	109
Interest expense	2,672	2,645
Contributions by plan participants	79	84
Actuarial losses (gains)	15,020	(6,411)
Benefits paid and death in service premiums	(1,815)	(1,550)
<b>Defined benefit obligation at end of period</b>	<b>91,926</b>	<b>74,231</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 8. Retirement benefits (continued)

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

	Period Ending 31/03/2017 £'000	Period Ending 31/03/2016 £'000
Fair value of scheme assets at start of period	70,940	70,697
Interest income	2,556	2,414
Actuarial gains (losses)	10,392	(2,786)
Contributions by the employer	1,830	2,081
Contributions by plan participants	79	84
Benefits paid and death in service premiums	(1,815)	(1,550)
<b>Fair value of plain assets at end of period</b>	<b>83,982</b>	<b>70,940</b>

The actual return on the plan assets over the period ended 31 March 2017 was (£12,948,000)

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

	Period Ending 31/03/2017 £'000	Period Ending 31/03/2016 £'000
Current service cost	1,621	1,719
Expenses	118	109
Net Interest cost	116	231
<b>Total expense recognised in SOFA</b>	<b>1,855</b>	<b>2,059</b>

### Defined benefit costs recognised in other comprehensive income

	Period Ending 31/03/2017 £'000	Period Ending 31/03/2016 £'000
Return on plan assets (excluding amounts included in net interest cost) – gain/(loss)	10,392	(2,786)
Experience gains and losses arising on the plan liabilities – gain (loss)	982	2,383
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities – gain (loss)	(16,002)	4,028
<b>Total amount recognised in other comprehensive income – gain (loss)</b>	<b>(4,628)</b>	<b>3,625</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 8. Retirement benefits (continued)

### Assets

	31/03/2017	31/03/2016	31/03/2015
	£'000	£'000	£'000
Equities	36,529	29,475	29,393
Corporate Bonds	-	16,143	16,424
Government bonds	5,795	-	-
Index Linked bonds	31,358	-	-
Fixed interest Bonds	-	15,877	15,930
Property	9,983	9,355	8,740
Cash	317	90	210
<b>Total assets</b>	<b>83,982</b>	<b>70,940</b>	<b>70,697</b>

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

### Assumptions

	31/03/2017	31/03/2016	31/03/2015
	% per annum	% per annum	% per annum
Discount Rate	2.70%	3.60%	3.40%
Inflation (RPI)	3.50%	3.30%	3.30%
Inflation (CPI)	2.50%	2.30%	2.30%
Salary growth	2.95%	2.75%	2.75%
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.50%	2.30%	2.30%
Allowance for revaluation of deferred pensions of CPI or 2.5% p.a. if less	2.50%	2.30%	2.30%
Allowance for pension in payment increases of RPI or 5% p.a. if less	3.30%	3.20%	3.20%
Allowance for pension in payment increases of RPI or 3% p.a. if less	2.50%	3.00%	3.00%
Allowance for pension in payment increases of RPI	3.50%	3.30%	3.30%
Allowance for commutation of pension for cash at retirement	No allowance	No allowance	No allowance

The mortality assumptions adopted at 31 March 2017 imply the following life expectancies:

	Life expectancy at age 60 (Years)
Male retiring in 2017	26.6
Female retiring in 2017	28.7
Male retiring in 2037	28.0
Female retiring in 2037	30.3

The best estimate of contributions to be paid by the employer to the scheme for the period commencing 1 April 2017 is £1,619,000.

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 8. Retirement benefits (continued)

### b) Defined Contribution Schemes

A group personal pension scheme based on defined contributions was set up for new members of established staff and staff on contracts exceeding 1 year with effect from October 2002. The cost for the year was £1,655,589 (2016: £1,555,992), with no outstanding contributions at the balance sheet date. The cost forms part of staff costs which as stated in note 1(f) are classed as direct expenditure attributable to the activity, and are all from unrestricted funds.

An additional group personal pension scheme based on defined contributions was set up for casual staff and staff on contracts of less than 1 year with effect from October 2013, to meet pension auto-enrolment requirements. The cost for the year was £19,254 (2016: £16,420), with no outstanding contributions at the balance sheet date.

## 9. SOFA Comparatives

Income from donations and legacies for the current year was £6,665k (2016: £5,991k) of which £4,201k was restricted (2016: £3,692k was restricted comprising Grants £2,987k; Donations £62k; Gifts in Kind £643k)

Income from charitable activities for the current year was £59,673k (2016: £58,177k) of which £nil was restricted (2016: £4k)

Expenditure on charitable activities for the current year was £70,602k (2016: £73,349k, restated, see note 3) of which £1,812k was restricted (2016: £1,629k was restricted comprising; Give the Palaces the care they deserve £302k; Public Access £1,148k; Interpretation and Learning £172k; Have a wider impact in the world £7k).

## Notes to the Consolidated Accounts for the year ended 31 March 2017

### 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
<b>Cost</b>							
<b>Balance as at 1 April 2016</b>	<b>13,896</b>	<b>5,083</b>	<b>3,828</b>	<b>884</b>	<b>5,522</b>	<b>28</b>	<b>29,241</b>
Additions	-	77	191	30	147	281	726
Disposals	-	(108)	(118)	(104)	(21)	-	(351)
Transfers within tangible assets	-	-	-	23	12	(35)	-
<b>Balance as at 31 March 2017</b>	<b>13,896</b>	<b>5,052</b>	<b>3,901</b>	<b>833</b>	<b>5,660</b>	<b>274</b>	<b>29,616</b>
<b>Accumulated depreciation</b>							
<b>Balance as at 1 April 2016</b>	<b>8,641</b>	<b>3,216</b>	<b>3,083</b>	<b>747</b>	<b>3,887</b>	<b>-</b>	<b>19,574</b>
Charge for the year	364	292	249	68	278	-	1,251
Disposals	-	(87)	(116)	(104)	(21)	-	(328)
<b>Balance as at 31 March 2017</b>	<b>9,005</b>	<b>3,421</b>	<b>3,216</b>	<b>711</b>	<b>4,144</b>	<b>-</b>	<b>20,497</b>
<b>Net book value as at 31 March 2017</b>	<b>4,891</b>	<b>1,631</b>	<b>685</b>	<b>122</b>	<b>1,516</b>	<b>274</b>	<b>9,119</b>
As at 31 March 2016	5,255	1,867	745	137	1,635	28	9,667
<b>The net book value as at 31 March 2017 represents fixed assets used for</b>							
Fundraising	-	-	-	-	-	2	2
Retail activities	81	589	-	16	34	34	754
Other commercial activities	-	14	11	4	15	9	53
<b>Charitable expenditure:</b>							
Give the palaces the care they deserve	1,828	298	-	19	910	49	3,104
Transform the way visitors explore their story:							
Public access	2,288	276	505	65	491	130	3,755
Interpretation and learning	694	454	161	15	66	42	1,432
Have a wider impact in the world	-	-	8	3	-	8	19
	<b>4,891</b>	<b>1,631</b>	<b>685</b>	<b>122</b>	<b>1,516</b>	<b>274</b>	<b>9,119</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 11. Heritage assets (Group & Charity)

	Artefacts 2017 £000	No.	Artefacts 2016 £000	No.	Artefacts 2015 £000	No.	Artefacts 2014 £000	Artefacts 2013 £000
<b>Cost and net book value</b>								
<b>Balance as at 1 April</b>	<b>6,459</b>	469	<b>5,796</b>	465	<b>5,528</b>	457	<b>5,473</b>	<b>5,172</b>
Additions, at cost	148	7	20	2	214	4	44	143
Transfers from assets in the course of construction	-		-		-		-	48
Disposals	(4)	(1)	-	-	(19)	(2)	-	-
Donated works, at deemed value	1,407	2	643	2	73	6	11	110
<b>Balance as at 31 March</b>	<b>8,010</b>	477	<b>6,459</b>	469	<b>5,796</b>	465	<b>5,528</b>	<b>5,473</b>

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

### Charitable expenditure

Transform the way  
visitors explore their  
story:

Interpretation and learning	<b>8,010</b>	6,459	5,796	5,528	5,473
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There was one significant addition to Heritage assets in the year, valued at £1.4 million. This was accepted in lieu of inheritance tax by HM Government and allocated to HRP for Kensington Palace. The valuation basis used is the tax settlement value.

### 11a) Further information on HRP's collections of heritage assets

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

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

- The Royal Ceremonial Dress Collection (c8,700 accessioned items), an important collection of largely British royal and court ceremonial dress, established at Kensington Palace in 1984;
- The general collection (c7,500 accessioned items), consisting of paintings, drawings, prints, furniture, sculpture, furnishing textiles, decorative arts and social history objects, chiefly displayed as part of the historic furnished interiors at the palaces;
- Architectural drawings archive (c22,000 accessioned items), containing both modern and historic drawings and copies.
- Architectural and archaeological materials salvaged or excavated from the palaces. These are primarily used as a research archive. (c6,800 accessioned items).

In addition, HRP owns unaccessioned assets as follows:

- c8,000 architectural drawings.

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

- The majority of the important works of art displayed "at home" at our palaces and stored form part of the Royal Collection, owned by HM The Queen on behalf of the nation and administered by the Royal Collection Trust (c8,000 items);

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 11. Heritage assets (continued)

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

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

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

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

The de-accession of a marble plinth took place in the year, following a request by the Royal Collection Trust to transfer ownership of the plinth to the Royal Collection. The plinth has probable earlier provenance to Windsor Castle which is where it is now located.

### 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 the Banqueting House, installed in 1636.

We display and provide day-to-day care for the Crown Jewels in the Tower of London. Like the palaces themselves, the Crown Jewels are owned by HM The Queen in right of Crown.

### 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.

## Notes to the Consolidated Accounts for the year ended 31 March 2017

### 12. Investments

<u>Bond Portfolio</u>	Group 2017 £000	Charity 2017 £000
<b>Balance as at 1 April</b>	9,347	9,347
Effective interest earned	202	202
Interest coupons received	(456)	(456)
Bonds purchased	1,560	1,560
Bonds redeemed	(1,835)	(1,835)
<b>Balance as at 31 March</b>	<b>8,818</b>	<b>8,818</b>

These consist of short dated, investment grade, sterling, fixed income securities. The bond portfolio is accounted for using the effective interest method as the bonds are intended to be held to maturity.

In March 2017 an investment was made in a multi-asset investment fund.

<u>Multi-Asset Investment Fund</u>	Group 2017 £000	Charity 2017 £000
<b>Balance as at 1 April</b>	-	-
Units Purchased	840	840
(Loss) on revaluation	(17)	(17)
<b>Balance as at 31 March</b>	<b>823</b>	<b>823</b>
<b>Total Investment Balance as at 31 March</b>	<b>9,641</b>	<b>9,641</b>

### 13. Debtors

	Group 2017 £000	Charity 2017 £000	Group 2016 £000	Charity 2016 £000
Trade debtors	2,280	1,773	1,951	1,756
Amounts due from subsidiary	-	1,374	-	1,198
Other debtors	121	121	365	264
Prepayments and accrued income	1,974	1,835	1,708	1,604
	<b>4,375</b>	<b>5,103</b>	<b>4,024</b>	<b>4,822</b>

Within debtors, no accrued income is due after more than one year (2016: £nil).

## Notes to the Consolidated Accounts for the year ended 31 March 2017

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

	Group 2017 £000	Charity 2017 £000	Group 2016 £000	Charity 2016 £000
Trade creditors	2,138	1,764	1,903	1,535
Taxation and social security	1,137	910	846	838
Other creditors	315	313	264	265
Accruals	8,647	7,950	9,228	8,542
Deferred income	3,717	2,787	2,549	1,504
	<b>15,954</b>	<b>13,724</b>	<b>14,790</b>	<b>12,684</b>

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

### 15. Provision for liabilities and charges (Group and Charity)

	Claims £000	Total £000
Balance as at 1 April 2016	12	12
Amounts used in year	-	-
New provisions in year	50	50
<b>Balance as at 31 March 2017</b>	<b>62</b>	<b>62</b>

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

### 16. Financial commitments under operating leases

The Group and Charity had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Group 2017 £000	Charity 2017 £000	Group 2016 (restated) £000	Charity 2016 (restated) £000
Operating Lease payments due:				
Not later than one year	695	532	678	518
Later than one year and not later than five years	2,655	2,014	2,539	1,911
Later than five years	33,910	33,431	33,626	33,003
<b>Total payable</b>	<b>37,260</b>	<b>35,977</b>	<b>36,843</b>	<b>35,432</b>

2016 has been restated to include property service charges payable under non-cancellable operating leases. This has increased the amount payable later than five years by £14.8m (Group and Charity) and overall by £15.9m (Group) and £15.7m (Charity).

## Notes to the Consolidated Accounts for the year ended 31 March 2017

### 17. Operating lease income

The Group and Charity had the following future minimum lease income under non-cancellable operating leases for each of the following periods:

	Group 2017 £000	Charity 2017 £000	Group 2016 (restated) £000	Charity 2016 (restated) £000
Operating Lease payments due:				
Not later than one year	240	138	296	195
Later than one year and not later than five years	852	498	906	516
Later than five years	555	313	741	433
<b>Total receivable</b>	<b>1,647</b>	<b>949</b>	<b>1,943</b>	<b>1,144</b>

2016 has been restated to include property leases on five trading units at the Tower of London. This has increased the amount receivable overall by £1.9m (Group) and £1.1m (Charity).

### 18. Capital commitments

	Group 2017 £000	Charity 2017 £000	Group 2016 £000	Charity 2016 £000
Contracted capital commitments as at 31 March 2017, for which no provision has been made in the accounts:	10,741	10,741	4,166	4,106

Commitments include £3.15m (2016: £23,473) relating to projects that are being funded by donations from third parties.

### 19. Contingent liabilities

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

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

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 20. The summary financial performance of the charity alone

	Unrestricted funds	Restricted funds	Total 2017	Total 2016 (restated)
	£000	£000	£000	£000
<b>INCOME</b>				
<b>Donations and legacies</b>				
Grants	-	2,775	2,775	2,987
Donations	2,464	15	2,479	2,361
Gifts in Kind	-	1,411	1,411	643
	<b>2,464</b>	<b>4,201</b>	<b>6,665</b>	<b>5,991</b>
<b>Income from other trading activities</b>				
Retail income	-	-	-	-
Functions and events	405	-	405	458
Licences and rents	2,049	-	2,049	1,945
Sponsorship	(14)	-	(14)	1
	<b>2,440</b>	<b>-</b>	<b>2,440</b>	<b>2,404</b>
<b>Investments</b>				
	423	-	423	413
<b>Income from charitable activities:</b>				
Admissions	57,176	-	57,176	55,733
Concessions	2,497	-	2,497	2,441
<b>Other Income</b>				
Service Charge to and Gift Aid distributed from HRPE	14,994	-	14,994	12,527
<b>Total income</b>	<b>79,994</b>	<b>4,201</b>	<b>84,195</b>	<b>79,509</b>
<b>EXPENDITURE</b>				
<b>Costs of raising funds:</b>				
Fundraising	705	-	705	714
Retail activities	5,315	-	5,315	5,109
Other commercial activities	1,837	-	1,837	2,062
Investment management costs	23	-	23	24
	<b>7,880</b>	<b>-</b>	<b>7,880</b>	<b>7,909</b>
<b>Expenditure on charitable activities:</b>				
Give the palaces the care they deserve	22,255	679	22,934	26,805
Transform the way visitors explore their story:				
Public access	26,478	851	27,329	26,650
Interpretation and learning	14,554	280	14,834	14,256
Have a wider impact in the world	5,457	2	5,459	5,566
	<b>68,744</b>	<b>1,812</b>	<b>70,556</b>	<b>73,277</b>
<b>Other</b>				
Defined Pension scheme net interest cost	116	-	116	231
<b>Total Expenditure</b>	<b>76,740</b>	<b>1,812</b>	<b>78,552</b>	<b>81,417</b>
<b>Net Income / (Expenditure)</b>	<b>3,254</b>	<b>2,389</b>	<b>5,643</b>	<b>(1,908)</b>
Actuarial (loss)/gain on pension plan	(4,628)	-	(4,628)	3,625
Net (losses)/gains on investments	(17)	-	(17)	-
<b>Net movement in funds</b>	<b>(1,391)</b>	<b>2,389</b>	<b>998</b>	<b>1,717</b>
<b>Fund balances brought forward at 1 April</b>	<b>35,594</b>	<b>6,419</b>	<b>42,013</b>	<b>40,296</b>
<b>Fund balances carried forward at 31 March</b>	<b>34,203</b>	<b>8,808</b>	<b>43,011</b>	<b>42,013</b>

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 20. The summary financial performance of the charity alone (continued)

2016 has been restated to

- show Admissions income net of discounts, reducing Public access expenditure by the equivalent amount. This is to show consistency with the presentation in the consolidated SOFA
- allocate support costs to expenditure categories.

## 21. Related party transactions

This note lists material transactions with other entities in which either Trustees or senior employees of HRP or their close family members hold positions of authority. It also details all transactions with Trustees, with the exception of remuneration of Trustees which is covered in Note 6 and donations made by them, which totalled £2,200 in year (2016: £800).

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

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

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

Related party	Connected party	2017 £000	2016 £000	Detail of transaction
The Chartered Management Institute (CMI)	Bruce Carnegie-Brown (Trustee of HRP) is president-elect of CMI	3 (nil)	-	Charges made by HRPE for an event held at The Banqueting House
The Choral Foundation, Chapel Royal, Hampton Court Palace	Sue Hall (Director of HRP) is a trustee of The Choral Foundation	12 (nil)	n/a	Charges made by the Choral Foundation to HRP for choral services and lunchtime recitals at Hampton Court Palace
The Foundation of the Chapels Royal of HM Tower of London	General the Lord Dannatt (Trustee of HRP until 31 July 2016) is chairman of The Foundation, and Richard Harrold (Director of HRP) is a trustee	16 (nil)	9 (nil)	Charges made by the Foundation to HRP for choral services at HM Tower of London
The Founders Forum	Rupert Gavin (Chairman of HRP) is on the advisory board of the Founders Forum	7 (nil)	-	Charges made by HRPE for an event at Kensington Palace
The Grocers' Charity, which is administered by The Grocers' Trust Company Ltd	Rupert Gavin (Chairman of HRP) is a director of The Grocers' Trust Company Ltd	5 (nil)	-	Grant received by HRP from The Grocers' Charity for an historical research project at HM Tower of London
		1 (nil)	-	Charges made by HRP for an event at Hampton Court Palace

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 21. Related party transactions (continued)

Related party	Connected party	2017 £000	2016 £000	Detail of transaction
Help for Heroes	General the Lord Dannatt (Trustee of HRP until 31 July 2016) is president and founder patron of Help for Heroes	4 (nil)	-	Charges made by HRPE for an event at HM Tower of London
Historic Royal Palaces Inc (HRP Inc)	Michael Day (Chief Executive of HRP) is President of HRP Inc, Daniel Wolfe and Sue Hall (Directors of HRP) are directors of HRP Inc	732 (nil)	-	Grants received by HRP from HRP Inc for Hillsborough Castle development project
		211 (211)	-	Grants received by HRP from HRP Inc for various projects
		-	542 (189)	Grants received by HRP from HRP Inc for Kensington Palace development
Incidental Colman Ltd	Rupert Gavin (Chairman of HRP) is Chairman and owner of Incidental Colman Ltd	1 (nil)	-	Charges made by HRPE for an event at Hampton Court Palace
Jardine Lloyd Thompson Group (JLT)	Bruce Carnegie-Brown (Trustee of HRP) is a non-executive director of JLT	7 (7)	n/a	Charges made by JLT to HRP for actuarial services
		4 (nil)	n/a	Charge made by HRPE for an event at Hampton Court Palace
National Trust	Michael Day (Chief Executive of HRP) is a trustee of National Trust	5 (nil)	n/a	Charges made by HRPE for an event at Hampton Court Palace
Northern Ireland Office (NIO)	Contracts HRP to manage Hillsborough Castle	319 (17)	279 (40)	Charges made by HRP and HRPE to NIO for security and cleaning costs
		11 (4)	2 (nil)	Charges made by NIO to HRP for security vetting
		1,250 (nil)	-	Grant received by HRP from NIO for Hillsborough Castle development project
Purcell UK (trading name of Purcell Miller Tritton LLP)	Jane Kennedy (Trustee of HRP) is a partner in Purcell UK	105 (6)	100 (8)	Charges made by Purcell to HRP for architectural services at Kensington Palace and Hampton Court Palace
		-	19 (nil)	Charges made by HRPE for an event held at Hampton Court Palace

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 21. Related party transactions (continued)

Related party	Connected party	2017 £000	2016 £000	Detail of transaction
Royal Armouries (RA)	General the Lord Dannatt (Trustee of HRP until 31 July 2016) is a trustee of RA. General Sir Nicholas Houghton (Trustee of HRP since 1 August 2016) is a trustee of RA	571	255	Charges made by RA to HRP for goods and services provided at HM Tower of London
		(78)	(77)	
		19	13	Recovery of costs from RA for maintenance, goods and services provided by HRP and HRPE at HM Tower of London
		(7)	(nil)	
Royal Botanic Gardens (RBGK) and RBG Kew Enterprises Limited (RBGKEL) which is a wholly owned subsidiary of RBGK	Val Gooding (Trustee of HRP until 31 July 2016) is a Trustee of RBGK	179	175	Income contribution received by HRP from RBGK towards the operational costs of Kew Palace, Queen Charlotte's Cottage and the Royal Kitchens
		(nil)	(nil)	
		7	9	Contribution received by HRP from RBGK for staff costs
		(nil)	(nil)	
		1	-	Charges made by HRPE to RBGKEL for goods for resale
		(nil)		
Royal Collection Trust (RCT), and Royal Collection Enterprises Limited (RCEL), which is a wholly owned subsidiary of RCT	Jonathan Marsden (Trustee of HRP) is a director of RCT and RCEL.	55	146	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.
		(nil)	(4)	
		41	38	Recovery by RCT from HRP of a proportion of the costs of maintaining and recording Royal Collection and other items displayed in the palaces.
		(10)	(5)	
		-	2	Charges made by HRP and HRPE to RCT and RCEL for miscellaneous items
			(nil)	
Royal Household (RH)	Sir Michael Stevens (Trustee of HRP) is deputy treasurer to The Queen	54	92	Charges made by RH to HRP for rent and services provided at Kensington Palace
		(24)	(4)	
		22	-	Charges made by HRP to RH for share of staff costs and grazing licence
		(19)		
The Royal Tennis Court	Michael Day (Chief Executive of HRP) is a director of The Royal Tennis Court	81	n/a	Charges made by HRP to The Royal Tennis Court for licences and miscellaneous costs
		(17)		

# Notes to the Consolidated Accounts for the year ended 31 March 2017

## 21. Related party transactions (continued)

Related party	Connected party	2017 £000	2016 £000	Detail of transaction
Santander UK plc	Bruce Carnegie-Brown (Trustee of HRP) is a non-executive director of Santander UK plc	-	-	HRP holds some of its short term cash deposits with Santander UK plc
Vodafone Group plc	Val Gooding (Trustee of HRP until 31 July 2016) is a non-executive director of Vodafone Group plc	4 (nil) 11 (nil)	4 (nil)	Charges made by HRP for rental costs of mast site  Charges made by HRPE for an event at HM Tower of London
Wolfson Foundation	Professor Sir David Cannadine (Trustee of HRP) is a trustee of Wolfson Foundation	220 (200)	-	Grants received by HRP from Wolfson Foundation, primarily for the Hillsborough Castle development project
Wyevale Garden Centres	Rupert Gavin (Chairman of HRP) is a non-executive director of Wyevale Garden Centres	29 (nil)	-	Partnership fee and cost recovery paid by Wyevale to HRP and HRPE
MoneySupermarket.com Ltd	Bruce Carnegie-Brown (Trustee of HRP) is chairman of MoneySupermarket.com	-	35 (nil)	Charge made by HRPE for sponsorship of Tudors on Tour event

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

## 22. Financial instruments

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

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

HRP is exposed to a credit risk of £2.3m trade debtors (2016: £2.0m). 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.

## Notes to the Consolidated Accounts for the year ended 31 March 2017

### 22. Financial instruments (continued)

HRP is subject to credit and market risk in its investment portfolio (note 12). These risks are mitigated by investing only in investment grade bonds and by using a professional investment manager.

HRP is not subject to any significant foreign currency risk.

### 23. Post balance sheet events

The financial statements were approved by the Accounting Officer and Trustees on 16 June 2017 and authorised for issue on 27 June 2017.