



National Audit Office

Report

by the Comptroller
and Auditor General

The Royal Household

The Sovereign Grant

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Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

9 October 2013

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Contents

Key facts	4
Summary	5
Key Observations	6
Conclusion	8
Key challenges for the Household in the future	8
Part One	9
Introduction	9
Part Two	17
About the Sovereign Grant	17
Part Three	19
Financial Management of the Sovereign Grant	19
Appendix One	26
The net cost of the Royal Household 2007-08 to 2012-13	26

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Key facts

£31m

Value of the Sovereign Grant in 2012-13

15%

Income account net surplus of the Crown Estate to be received as the Sovereign Grant from 2013-14

£1m

Balance on the Sovereign Grant Reserve at end of 2012-13

1760

The year the Government began funding the Sovereign in exchange for the net income of the Crown Estates

2015-16

First review by the Royal Trustees of the level of the Sovereign Grant

5 years

Between reviews of the Sovereign Grant funding formula

£37.9 million

Expected value of the Sovereign Grant in 2014-15

50 per cent

Maximum size of the Sovereign Grant Reserve Fund relative to the level of the Grant

Summary

1 Since 1760, when George III agreed to surrender the net income of the Crown Estates to the Exchequer in return for a fixed annual payment, the Government has provided financial support to the Sovereign. Most recently this support was provided in three parts: the Civil List, which was provided to meet the official expenses of the Royal Household (the Household) and separate Grants-in-Aid to meet the cost of Royal Travel, Royal Communications and Information and the maintenance of the Occupied Royal Palaces. From 1 April 2012 the financial support has been consolidated into the Sovereign Grant (the Grant) and the existing Civil List reserve fund transferred into a Sovereign Grant Reserve.

2 The Sovereign Grant Act 2011 (The Act) set the initial Grant for 2012-13 at £31 million. For subsequent years the level of the Grant is based on a percentage, initially 15 per cent, of the net income of the Crown Estates in the year two years prior to the funding year. Following this formula the Grant is set to rise to £36.1 million in 2013-14 and is likely to be £37.9 million in 2014-15.

3 The Act also introduced new arrangements to strengthen the accountability and scrutiny of the Household for the spending on The Queen's official business. The Comptroller and Auditor General is the statutory auditor of the Sovereign Grant and Sovereign Grant Reserve accounts which are laid before Parliament. The Committee of Public Accounts can also examine the Grant accounts and therefore consider the full level of support to the Household whereas previously it could only examine aspects of the Royal Finances through its scrutiny of the Grants-in-Aid.

4 The first Annual Report and Accounts for the Sovereign Grant and Reserve Fund, covering 2012-13, were published on 27 June 2013, and form the basis of this memorandum. The memorandum sets out:

- The changes to the Household's funding arrangements and the introduction of the Sovereign Grant (Part One)
- The calculation of the Sovereign Grant, the Reserve Fund and the impact on the Household's management of its finances (Part Two)
- The Household's financial management of the Sovereign Grant (Part Three).

Key Observations

The Sovereign Grant

5 The Grant offers the Household greater flexibility in managing its spending.

Prior to the Grant the separate funding regimes of the Civil List and the Grants-in-Aid required the Household to manage separately its spending in support of The Queen in Her official duties, Royal Travel and the maintenance of the Occupied Royal Palaces. Under the new arrangements, consolidating the financial support and increasing flexibility in the use of resources allows the Household to allocate spending in the way that it considers best achieves its objectives.

6 The Grant provides the Household greater certainty over future funding levels and enables it to budget for the longer-term.

The funding formula will keep the Grant in line with the income growth achieved by the Crown Estate and guarantees a minimum level of annual funding as the Grant cannot drop below the previous year's funding. This certainty should facilitate the Household's longer-term planning, particularly around its property maintenance programme.

7 The Act has established safeguards to ensure that the size of the Grant is controlled and the Household cannot accumulate large funding reserves.

The Royal Trustees (the Trustees - the Prime Minister, the Chancellor of the Exchequer, and the Keeper of the Privy Purse) will review the percentage of Crown Estate income surplus in the formula in 2015-16, and every five years thereafter, to control any significant growth in Grant funding. The Trustees are also required to act if the Sovereign Grant Reserve is likely to exceed more than 50 per cent of the Grant.

The financial management of the Sovereign Grant

8 The Household has an established financial planning and budgeting system and process for monitoring performance.

The Household's Three Year Plan sets out its business objectives and forecast budgets, in line with The Queen's Programme. The Household updates the Plan annually and sets a detailed Sovereign Grant Budget which it submits to Treasury for approval. The Lord Chamberlain's Committee monitors performance against the Sovereign Grant Budget through detailed monthly management accounts, which link financial and operational performance. The Household has developed specific financial controls over key areas of spending, such as staff costs, travel, and property maintenance; these include established procedures to assist in determining priorities and demonstrating value for money.

9 The Household has responded to decreases in funding by reducing its spending. Over the past 20 years the Household has seen significant reductions in its funding. Between 1991-92 and 2011-12, the funding for Royal Travel was reduced by 76 per cent in real terms, and the Grant-in-Aid for the maintenance of the Occupied Royal Palaces was reduced by 60 per cent in real terms. In response to this the Household reduced its net expenditure by 55 per cent in real terms. In 2011-12 the Household's net expenditure totalled £32.9 million in real terms, compared to an equivalent £72.6 million in 1991-92.

10 Since the last Civil List was set in 2001, the Household has drawn-down funds from reserves to meet its spending in support of Her Majesty's official duties. At its peak in 2001 the Royal Household Investment Committee Reserve (the Civil List Reserve) stood at £35.3 million, this balance was used during the 2000s to fund the excess of expenditure over the Civil List annuity. On 1 April 2012 the remaining reserve balance of £3.3 million was transferred to the Sovereign Grant Reserve. In the first year of the new Grant, a further £2.3 million was drawn-down leaving the reserve balance at £1.0 million.

11 More recently the Household has increased its income from other sources. Since the Committee of Public Accounts' last report, the Household has increased income by 54 per cent in real terms. In 2012-13 the Household generated over £11.6 million through income and recharges compared with £7.5 million in 2007-08 in real terms. Following PAC recommendations the Household has increased its income from the commercial letting of properties and by making use of its facilities for commercial events. The Household also increased the income from facilities management charges payable by the Royal Collection Trust in respect of Buckingham Palace and Windsor Castle.

12 The Household is re-introducing its process of developing a longer-term plan to address the backlog in property maintenance. The Household's current maintenance plan is aligned with the three-year planning period. In the last two years it discontinued the practice of updating its 10 year plan for property maintenance due to uncertainty over future funding levels. The most recent condition assessment of the Occupied Royal Palaces confirmed that 39 per cent of the Estate was below the Household's target condition at 31 March 2012.

Conclusion

13 The Sovereign Grant Act 2011 brings the audit and accountability arrangements for the Household onto the same footing as those for government departments. Prior to the Act the Committee of Public Accounts' scrutiny of the Royal Finances had been limited to examining the specific Grants-in-Aid for the maintenance of the Occupied Royal Palaces and Royal Travel. The simplification of Parliamentary funding through a single Grant administered by HM Treasury, allows the Committee to scrutinise the spending in support of Her Majesty's official business in full.

14 The Grant provides the Household with greater flexibility in managing its spending and certainty over its future funding levels which should aid the Household's longer-term financial management and planning.

Key challenges for the Household in the future

15 The introduction of the Grant and the increased certainty in funding it provides, offers the Household the opportunity to develop further its long-term financial management. This includes re-establishing a longer-term property maintenance plan which will allow the Household to demonstrate the progress it expects to make in reducing the backlog and bringing the Estate in line with its target condition.

16 The Household has drawn on its reserves to fund its spending in support of official activities in recent years. At 31 March 2013, the Sovereign Grant Reserve stood at £1.0 million, equivalent to three per cent of net expenditure for the year. As part of its long-term planning the Household may need to consider whether the Reserve is adequate to meet unexpected costs.

Part One

Introduction

The Sovereign Grant

1.1 The Sovereign Grant Act 2011 (the Act) introduced a new system of funding for the Royal Household (the Household). On 1 April 2012 the new Sovereign Grant replaced the Civil List and the three Grants-in-Aid (for Royal Travel, Communications and Information, and the maintenance of the Occupied Royal Palaces) with a consolidated annual grant. The Sovereign Grant (the Grant) was £31 million in 2012-13.

1.2 Previously, aspects of Household funding were overseen by HM Treasury, the Department for Culture, Media and Sport, the Department for Transport and the Ministry of Defence. The Act has simplified these arrangements and HM Treasury is now responsible for monitoring the application of the Grant in accordance with the Framework Agreement between HM Treasury and the Household (discussed further in Part Three).¹

1.3 The purpose of the Grant is to provide resources for use by the Household in support of Her Majesty's official duties as Sovereign. These include:

- Royal Travel for official engagements in the UK and overseas undertaken by The Queen and Other Members of the Royal Family acting on Her behalf;
- the maintenance of Royal residences (the Occupied Royal Palaces) which are used for formal entertaining and ceremonial events;² and
- employment costs for staff of the Household who support the work of Her Majesty as Head of State.

1.4 The Act also introduced new oversight and accountability arrangements which mean that, for the first time, the Household's support of Her Majesty's official duties are subject to the same audit scrutiny as other government expenditure. Sovereign Grant expenditure is subject to audit by the Comptroller and Auditor General. The

¹ The Framework Agreement relating to the Sovereign Grant
<http://www.royal.gov.uk/pdf/Sovereign%20Grant/Sovereign%20Grant%20Framework%20Agreement%20-%20Final%20for%20website.pdf>

² The Occupied Royal Palaces are Buckingham Palace, St James's Palace, Clarence House, Marlborough House Mews, the residential and office areas of Kensington Palace, Windsor Castle and the buildings in the Home and Great Parks at Windsor, and Hampton Court Mews and Paddocks.

Sovereign Grant and Sovereign Grant Reserve Accounts for 2012-13 were audited by the Comptroller and Auditor General (C&AG) and laid before Parliament on 27 June 2013. Furthermore, Sovereign Grant expenditure is open to full scrutiny by the Committee of Public Accounts.

The Royal Finances

1.5 The Grant is one of three sources of funding for The Queen, or officials of the Household acting on Her Majesty's behalf, in both a public and private capacity. The Queen receives private income from two other sources:

- **Income from the Duchy of Lancaster** (also known as the Privy Purse), a portfolio of land, property and assets used mainly to pay for expenditure such as expenses incurred by Other Members of the Royal Family on official duties not met by the Grant. The Sovereign is not entitled to the Capital of the Duchy.
- **The Queen's personal income**, derived from her personal investment portfolio and private estates, is used to meet Her private expenses. The Queen owns the Balmoral and Sandringham Estates.

1.6 The official duties of Other Members of the Royal Family are funded by the Privy Purse or, in the case of the Prince of Wales's Household, by the Duchy of Cornwall. The Grant meets certain costs in support of the Royal Family's official duties including travel, office accommodation, postal services, and the security facilities for managing official visitor access to the residences and offices of the Royal Family.

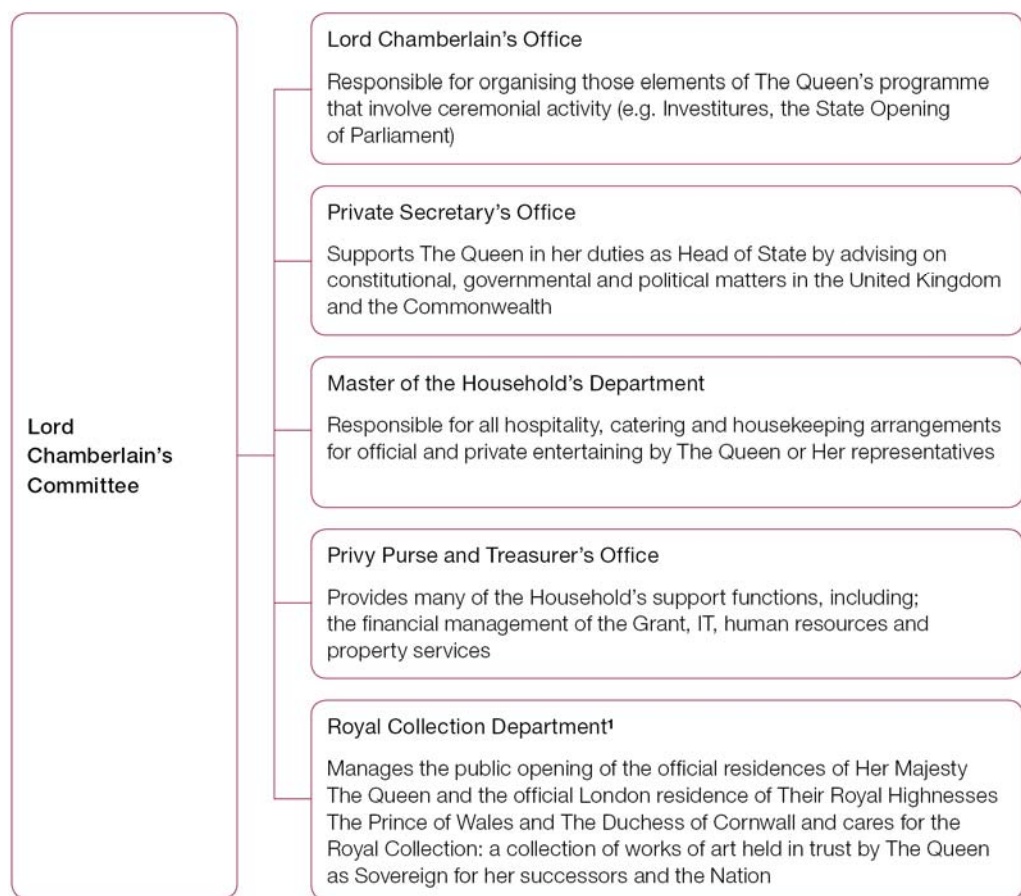
The Royal Household

1.7 The Household is responsible for supporting The Queen in performing her official duties and for the maintenance of the Occupied Royal Palaces. In managing the Grant, the Household's objectives are:

- to give excellent support to The Queen to enable Her Majesty to serve the nation as Head of State, while ensuring that value for money is achieved;
- to maintain the Occupied Royal Palaces as buildings of State to a standard consistent with the Household's operational requirements and with the royal, architectural and historic status of the buildings in a manner which ensures value for money; and
- to seek to contract in the most economical and efficient manner for the supply of all services, consistent with the appropriate safety and security requirements.

1.8 The Lord Chamberlain, the senior official of the Household, oversees the conduct and general business of the Household. The Lord Chamberlain’s Committee serves as the Board of the Household which reports to The Queen and is supported by five departments as outlined in **Figure 1**. The Committee comprises executive members, who head the Household’s five departments and two non-executive members.

Figure 1
The structure of the Royal Household



Note

1 Externally referred to as the Royal Collection Trust (a registered charity which does not receive public money).

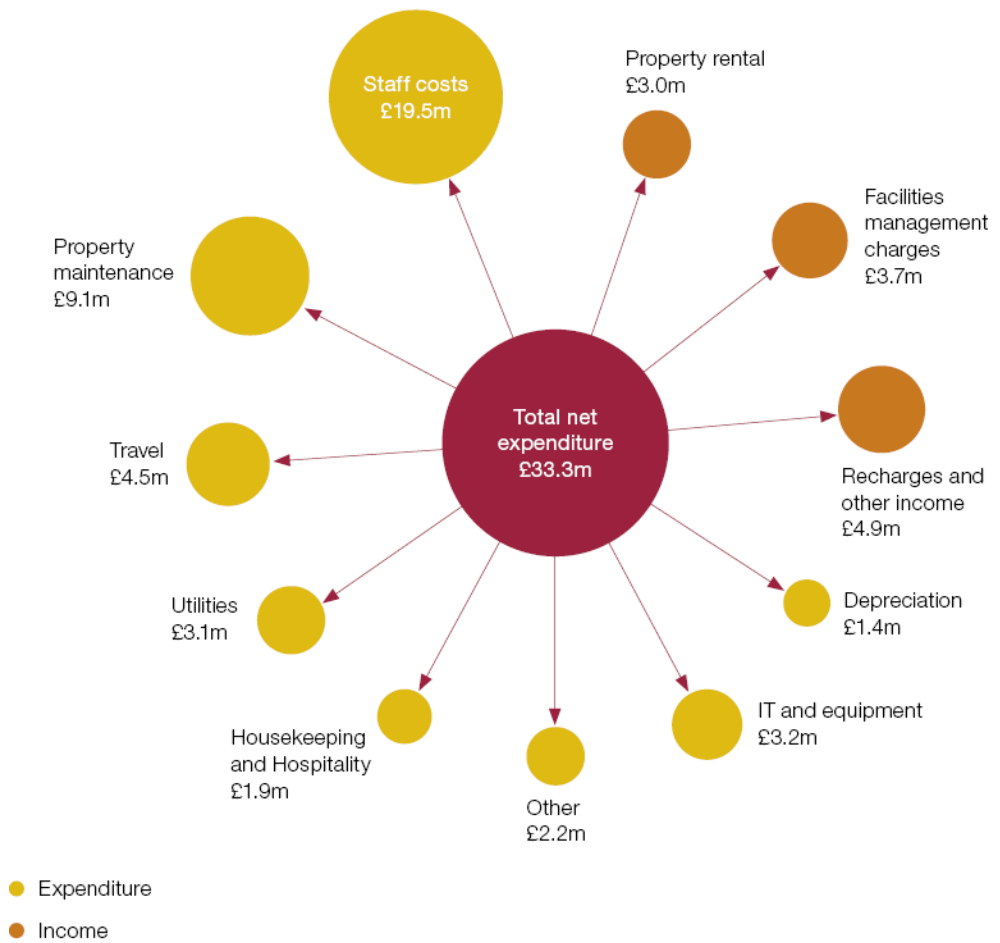
Source: National Audit Office analysis

Financial summary

1.9 The first Annual Report and Accounts covering the new arrangements under the Grant for the year to 31 March 2013 was published on 27 June 2013. **Figure 2** shows how the Grant has been spent in 2012-13.

Figure 2

Sovereign Grant income and expenditure analysis 2012-13



Note

1 Total net expenditure of £33.3 million in 2012-13 was funded by £31 million Sovereign Grant and £2.3 million draw down from the Sovereign Grant Reserve.

Source: National Audit Office analysis

Activities not funded through the Sovereign Grant

1.10 Activities which are outside of the Grant arrangements and funded by other government departments are set out in **Figure 3** below.

Funding under the previous arrangements

1.11 The Grant replaced the Civil List and the three Grants-in-Aid (for Royal Travel, Royal Communications and Information, and the Maintenance of the Occupied Royal Palaces) with a consolidated annual grant. Unlike the previous system which was reign-specific, the Grant is designed to be a permanent arrangement. The Grant also means that all of the Household's funding uses the same accounting year: the Civil List was accounted for on a calendar year basis whereas Grants-in-Aid related to the financial year.

1.12 The Civil List was provided to meet the official expenses of the Household, in the form of a cash annuity for a ten-year period. In setting the annuity, the Royal Trustees (the Trustees - the Prime Minister, the Chancellor of the Exchequer, and the Keeper of the Privy Purse) had to estimate the average level of expenditure over the ten year period and the effects of inflation. This led to the Household accumulating significant reserves in the 1990s and then drawing these down through the 2000s as the annuity levels remained fixed over a 20 year period.

Figure 3

Sources of funding for activities outside of the Sovereign Grant

Activity	Funded by
Administration of honours	Cabinet Office
Ceremonial occasions within the UK	Department for Culture, Media & Sport
State visits	Foreign & Commonwealth Office
Maintenance of Holyroodhouse	Historic Scotland
Maintenance of Home Park at Windsor	The Crown Estate
Equerries and orderlies	Ministry of Defence
Annuities to The Duke of Edinburgh	HM Treasury
Security and police costs	Home Office

Source: National Audit Office analysis

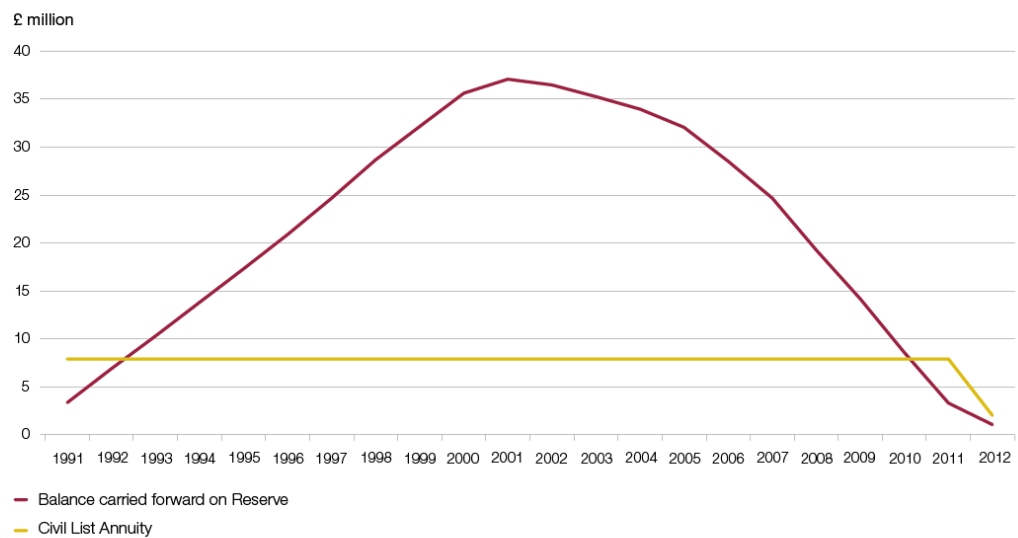
1.13 In 1991 the Trustees set the annuity for the next ten years at £7.9 million assuming that average annual inflation during the 1990's would be the same as the 7.5 per cent achieved in the 1980's. In the event inflation was much lower leading to the annuity exceeding expenditure. By 2001 the excess of annuity and interest accumulated in the Royal Household Investment Committee Reserve (the Civil List Reserve) had reached £35.3 million. In view of this, in 2000, the Trustees recommended that the annuity remain at £7.9 million for the next ten years and that from 1 April 2001 annual expenditures of £2.2 million previously met by Government departments be met from the Civil List. **Figure 4** shows the accumulation in the Civil List Reserve over the 1990's and its subsequent utilisation during the 2000s when expenditure exceeded the annuity.

1.14 In 2010 the Trustees recommended the retention of the annuity at £7.9 million for 2011 and the continued utilisation of the Civil List Reserve in advance of the introduction of the Grant. The residual balance on the Civil List Reserve of £3.3 million was transferred into the new Sovereign Grant Reserve Fund (the Reserve Fund) on 1 April 2012.

Figure 4

Reserve balance and Civil List Annuity 1991 to 2012 (cash terms)

After reaching £35.3 million in 2001, the Civil List Reserve balance was used to fund expenditure that exceeded the annual annuity



Note

1 The 2012-13 annuity is one quarter of the Civil List Annuity funding for January to March 2012, prior to the Sovereign Grant arrangements coming into effect.

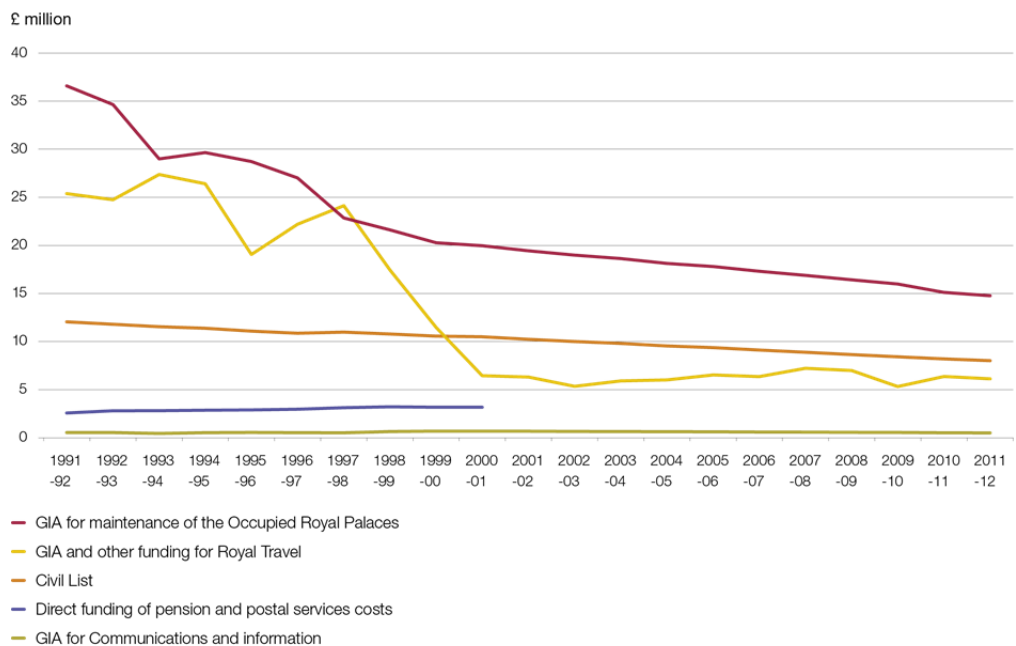
Source: National Audit Office analysis

1.15 Figure 5 shows the trends, in real terms, of Civil List and Grant-in-Aid funding of Household activities over the same 20 year period from 1991 to 2012, and the discontinuation of the direct funding of pension and postal contributions from 2001-02. The most significant reductions were in Royal Travel and property maintenance. Over the period the funding for Royal Travel fell from the equivalent of £25.4 million to £6.1 million in real terms, a reduction of 76 per cent. Over the same period the Grant-in-Aid for the maintenance of the Occupied Royal Palaces fell from £36.6 million to £14.8 million in real terms, a reduction of 60 per cent, leading the Household to defer work on property maintenance.

1.16 The Household managed this funding reduction by reducing its spending. Between 1991-92 and 2011-12 the Household reduced net expenditure from the equivalent of £72.6 million to £32.9 million in real terms, a reduction of £39.7 million (55 per cent). As **Figure 6** overleaf shows the most significant reduction in the Household’s net expenditure in this period occurred between 1991-92 and 2000-01, when spending reduced by £34.0 million in real terms.

Figure 5
Funding sources for the Royal Household 1991-92 to 2011-12 (real terms)

The principal sources of the Household's funding have decreased over the last 20 years



Notes

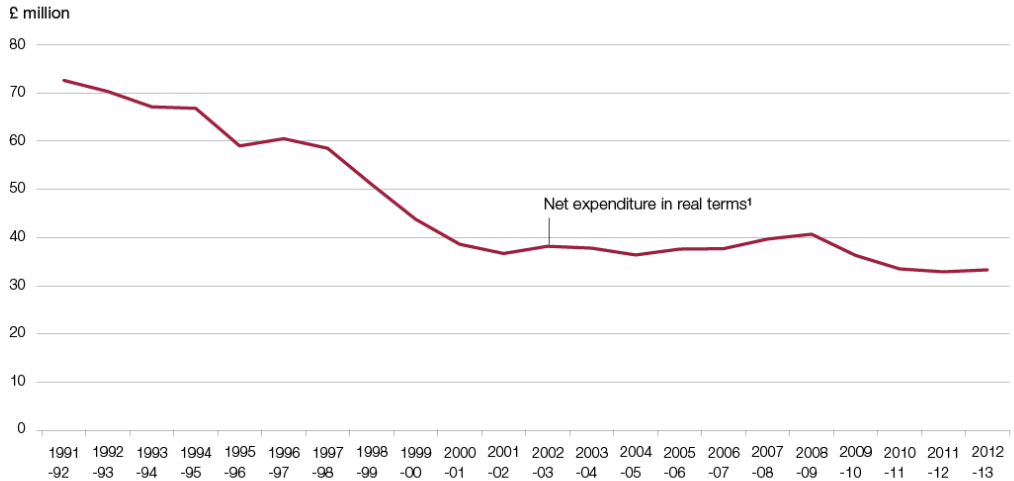
- Figures are in 2012-13 prices.
- Notional pension contributions and postal costs were met by the Consolidated Fund and The Post Office respectively until 2000-01 and absorbed by the Household (Civil List) thereafter.
- Royal Travel costs were funded by the Ministry of Defence, Department for Transport, and the Foreign & Commonwealth Office until 1996-97.
- Communications and Information were directly funded by other government departments until 1997-98.
- Capital Grants-in-Aid relating to the sale of land in 2007-08 and 2008-09 have been removed from the maintenance of the Occupied Royal Palaces GIA totalling £1.8 million for comparability.

Source: National Audit Office analysis

Figure 6

Royal Household net expenditure in real terms¹ 1991-92 to 2012-13

The Household has managed the reduction in its funding by reducing its net expenditure



Notes

1 Base year is 2012-13.

2 The above figure excludes non-comparable items such as the Royal Yacht Britannia (decommissioned in 1997-98), Parliamentary annuities for Members of the Royal Family, costs of equerries and orderlies and costs of the maintenance of the Palace of Holyroodhouse and the Home Park at Windsor Castle.

Source: National Audit Office analysis

1.17 While the funding reductions have been less pronounced in the period since 2001, the Household has continued to reduce expenditure particularly in the period since the 2008 financial crisis. A detailed analysis of Household income and expenditure covering 2007-08 to 2012-13, the last five years of the old funding arrangements and the first year of the Grant, is included in Appendix One. This shows that the Household cut its net costs by 16 per cent in real terms between 2007-08 and 2012-13. This was partially achieved through the Household increasing its income from other sources by 54 per cent in real terms.

1.18 The Household has sought to reduce costs while maintaining the level of activity in The Queen's Programme. In each of the last six years The Queen's Programme has on average involved over 300 engagements by The Queen, some 3,000 trips by the Royal Family, at least six garden parties and at least 26 investitures.

Part Two

About the Sovereign Grant

2.1 The Grant delivers important changes in the financial management of the Household over the previous funding arrangements by:

- providing greater certainty over future funding levels and facilitating planning over the longer-term;
- consolidating the financial support and increasing flexibility in the use of resources; and
- including safeguards to control the size of the Grant and the Reserve.

Greater certainty over future funding levels

2.2 In the first year of the new arrangement, 2012-13, the Act fixed the Grant at £31 million. As the Grant was insufficient to meet the expenditure of the Household in that year it was supplemented by a £2.3 million draw down from the Reserve Fund. At 31 March 2013 the Reserve Fund stood at £1.0 million, equivalent to three per cent of net expenditure.

2.3 For subsequent years, the Act establishes a formula for the calculation of the Grant based on a set percentage of the income account net surplus of the Crown Estate.³ The formula for the Grant for a given year is equal to a prescribed proportion, initially 15 per cent, of the Crown Estate's income account net surplus in the financial year two years prior. The formula also guarantees a minimum level of funding as the Grant is the greater of the funding received in the previous year and the amount calculated by the formula. This method of determining the Grant provides greater certainty over future funding levels and offers the Household the opportunity to plan and set budgets over a longer-term. As **Figure 7** overleaf shows, under this formula the Grant will be £36.1 million in 2013-14 and is likely to be £37.9 million in 2014-15.⁴

³ The Crown Estate is Crown Land managed independently since 1760. The Government receives its income in return for financial support for the Monarch's official duties (initially through the Civil List, now the Sovereign Grant).

⁴ The value of the Grant will be set in the 2013-14 Autumn Statement when the Royal Trustees lay their report before Parliament.

Figure 7

Calculation of the Sovereign Grant

	2010-11	2011-12	2012-13	2013-14	2014-15
Crown Estate Income Account Net Surplus (£m)	Not applicable	240.2	252.6	–	–
Sovereign Grant (£m)	–	–	31.0	36.1 ¹	37.9 ¹

Note

1 Equivalent to 15 per cent, of the Crown Estate's income account net surplus in the financial year two years prior.

Source: National Audit Office analysis of the Crown Estate Annual Report and Accounts

Increasing the flexibility of the Household's financial management

2.4 Under the previous arrangements of the Civil List and the three separate Grants-in-Aid (paragraph 1.11), funds could be spent only on specific categories of expenditure. For example, any underspend on the travel costs budget could not be used to supplement funding for property maintenance.

2.5 The consolidation of four grants into a single Grant offers the Household greater flexibility in its management of funds, allowing it to allocate funding in a manner which it considers best achieves its objectives. The arrangements also allow the Household to carry forward any unspent balance of the Grant into following years through the Reserve Fund, subject to certain constraints.

Establishing safeguards to control the size of the Grant and Reserve Fund

2.6 The Act introduced safeguards around the size of the Grant, including controls over the determination of the level of the Grant and limits on the size of the Reserve Fund. The Trustees (paragraph 1.12) are responsible for the following:

- The management of the Reserve Fund, by overseeing the draw-down of funds from the Reserve Fund where annual Household expenditure is likely to exceed the Grant.
- Ensuring that the Reserve Fund does not exceed approximately half of the Grant for any year by specifying a lower Grant amount and thereby necessitating a draw-down from the Reserve Fund.
- The Grant calculation formula, by considering the percentage used in the funding formula at set intervals. The Grant will be reviewed in 2015-16 by the Trustees and every five years thereafter.

Part Three

Financial Management of the Sovereign Grant

3.1 Effective financial management is essential to ensuring that the Grant is spent in accordance with Parliament's intentions and achieves value for money. This Part provides an overview of the Household's financial management in each of the following areas:

- The role of the Keeper of the Privy Purse, as the Accounting Officer
- the Household's financial planning and budgeting;
- the Household's monitoring of spending and performance;
- HM Treasury oversight through the Framework Agreement;
- the Household's control of spending in key areas; and
- the Household's strategy for increasing income.

3.2 In recent years the Household has continued to take steps to control its spending in key areas and to increase its income. A number of these initiatives to strengthen its financial management were in response to previous Committee of Public Accounts' recommendations and are also covered in this Part of the Memorandum.⁵

The Keeper of the Privy Purse

3.3 The Keeper of the Privy Purse, as the Accounting Officer, has overall responsibility for the financial management of the Household's activities funded by the Grant. This includes:

- the administration of the Grant in accordance with the Framework Agreement between the Household and HM Treasury;
- the application of the Grant only for purposes set out in the Framework Agreement; and
- the administration of the Grant in accordance with Managing Public Money and other guidance that may be notified to the Household by the Treasury.

⁵ HC Committee of Public Accounts, *Maintaining the Occupied Royal Palaces*, Twenty-fourth Report of session 2008-09, HC 201, 27 April 2009 and HC Committee of Public Accounts, *Royal Travel by Air and Rail*, Sixtieth Report of Session 2001-02, HC 529, 17 July 2002.

Financial planning and budgeting

3.4 The Household has an established framework for financial planning and budgeting which closely aligns medium-term operating plans and annual budgets with the Household's objectives. The Lord Chamberlain's Committee (see paragraph 1.8) is responsible for assessing risks and opportunities to the Household in areas funded by the Grant as part of its review of annual budgets and in the preparation of longer-term operating plans. The five department heads (Figure 1) are responsible for ensuring that department business plans are aligned with the overarching operating plans and the Household's objectives.

3.5 The Queen's Programme of official engagements drives the Household's planning and budgeting, which span a three-year period. The Household reviews and updates the Three Year Plan annually alongside the annual Sovereign Grant Budget. The Plan and the Budget set the framework for in-year monitoring of finances and performance in line with the Programme. The framework details the Household's business objectives, forecast budgets and plans for headline performance including key performance indicators (for example, income generation and overruns on completed property projects) across the key areas of Grant activity.

Monitoring spending and performance

3.6 The Household prepares detailed monthly management accounts supported by detailed expenditure analysis by department. It uses the management accounts to monitor financial and operational performance and inform decisions on the delivery of plans and the use of resources. The accounts support the Household's in-year forecasting, including the projected draw-down from the Reserve.

3.7 The Household's finance team of qualified management accountants investigates variances within the accounts and in performance with departmental budget holders every month. The Lord Chamberlain's Committee reviews the accounts at each meeting.

HM Treasury oversight through the Framework Agreement

3.8 HM Treasury's oversight of the Household's activities relating to the Grant is defined in the Framework Agreement. The Treasury Officer of Accounts is responsible for HM Treasury's relationship with the Household, including the monitoring and review of performance against targets and resources. The Agreement requires the Household to submit an annual Sovereign Grant Budget for the forthcoming year to HM Treasury for approval. Once approved, the Household has the authority to incur expenditure in the Budget without further reference to HM Treasury, subject to the specific conditions including limits for delegated authority. The Treasury Officer of Accounts monitors the Household's financial and non-financial performance in relation to the Grant through the monthly management accounts, cashflow information supporting the monthly Sovereign Grant requirement, and regular liaison meetings with Household management.

Household controls over expenditure

Staff costs

3.9 The Household controls staff costs through both its annual review of departmental budgets against plans and its analysis of variances in headcount and payroll costs in the monthly management accounts. All new Household positions have to be supported by a business case approved by the Head of Human Resources and the Deputy Treasurer to The Queen. As **Figure 8** shows the Household's headcount has remained largely static since 2007-08.

3.10 In 2010-11 the Household introduced a pay freeze for all staff on salaries in excess of £50,000 which it extended into 2011-12 and widened to include all staff on salaries in excess of £21,000. To maintain a flexible workforce the Household offers fixed-term and annualised hours contracts to fill short-term needs and uses security cleared casual workers for receptions rather than agency staff or contractors. It has also encouraged flexible working, for example, by allowing it to use existing staff to provide additional headcount for hospitality events.

Property projects

3.11 The Household's Property Section is responsible for the maintenance of the Occupied Royal Palaces. The Section develops the Household's Annual Works Programme with reference to the priorities for maintenance as identified by its condition assessments and operational requirements. **Figure 9** overleaf sets out the Household's property costs over recent years which have remained broadly static in line with its Grant-in-Aid funding.

Figure 8

Royal Household: headcount and staff costs (cash terms)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Headcount	430	436	442	435	431	436
Staff costs (£m)	18.4	19.6	19.9	19.2	18.5	19.5

Note

1 Headcount relates to average net full-time equivalent in year.

Source: National Audit Office analysis

Figure 9

Royal Household: Property costs (cash terms)

	Grant-in-aid for Occupied Royal Palaces					Sovereign Grant
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Property projects in the Annual Works Programme (i.e. projects costing £3,500 or more) (actual costs £m)	5.3	5.5	5.8	3.9	5.8	6.3
General maintenance (actual costs £m)	3.2	3.4	3.4	3.0	3.0	3.0
Maintenance of commercial properties (actual costs £m)	0.7	0.2	0.3	0.2	0.2	0.1
VAT Recoveries (£m)	–	–	–	(0.1)	(0.1)	(0.3)
Total (actual costs £m)	9.2	9.1	9.5	7.0	8.9	9.1

Notes

- 1 Salary costs have been removed in order to place costs on a consistent basis with the 2012-13 accounts.
- 2 The Grant-in-Aid for Occupied Royal Palaces was also used to fund other costs (e.g. utilities, fire, health and safety services, furniture and equipment) therefore the totals in this Figure do not match the Grant-in-Aid draw down.

Source: National Audit Office analysis

3.12 The Household tracks all projects from tender to completion using an in-house tool which also records authorisations for, and adjustments to, spend. Data on the percentage of property projects delivered within time and budget is a Key Performance Indicator which is monitored and reported in the management accounts. Projects costing more than £25,000 require four tenders and the Household actively monitors spend by recording variances greater than 5 per cent of the let tender amount or the greater of £20,000 and 10 per cent of the let tender amount in the monthly management accounts.

3.13 The Committee recommended that the Household defines criteria for inspecting the condition of the Estate, agrees with the Department for Culture, Media and Sport the basis for calculating the backlog, and before the end of 2009, sets out a plan for managing it. The Household now uses a system developed with Defence Estates to monitor and record changes in the overall condition of the Estate. The Property Section's most recent condition assessment of the Estate at 31 March 2012 confirmed that 39 per cent was below the Household's perceived target condition.

3.14 The Household previously operated a 10 year plan but has not updated this plan in the last two years because of uncertainty over funding. It now intends to use a significant proportion of future increases in Grant funding, supplemented by growth in other income, to fund its Annual Works Programme at a level which will contribute to reducing the backlog in maintenance. The Household is re-introducing an updated version of its 10 year plan to show how it intends to address the backlog in property maintenance. The plan will be informed by the Household's current exercise to update the condition assessment of the Estate, due for completion in Autumn 2013.

Royal Travel

3.15 All agreed bids for UK-based travel are co-ordinated through the Royal Travel Diary, which is shared with the Households of Other Members of the Royal Family. Individual travel options are assessed across a range of criteria including safety, security, and value for money. All approved bids for visits by The Queen, or Other Members of the Royal Family representing Her, form part of The Queen's Annual Programme. Travel budgets are set for each Household and are monitored through the monthly management accounts.

3.16 The programme of overseas visits is developed by the Foreign and Commonwealth Office according to agreed priorities and bids considered by a joint Royal Household/Foreign and Commonwealth Office Committee before consideration by the Royal Visits Committee which is a Cabinet Office Committee.

3.17 In 2012-13 expenditure on Royal Travel by air and by rail was £4.5 million, equivalent to a real terms reduction of 30 per cent since 2000-01. This was achieved through greater use of scheduled flights and a reduction of fixed wing charter flying hours. **Figure 10** shows the breakdown of Royal Travel costs across the last five years of the Grant-in-Aid and the first year of the Grant.

Figure 10

Royal Household: Travel costs (cash terms)

	Grant-in-Aid for Royal Travel					Sovereign Grant
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Helicopters (actual costs £m)	1.2	1.2	1.2	1.4	1.5	1.6
Fixed wing aircraft (civil operators) variable costs (actual costs £m)	2.2	2.6	1.6	2.2	2.2	1.7
Fixed wing aircraft (32 Squadron) variable costs (actual costs £m)	0.4	0.4	0.2	–	0.1	0.1
Rail travel (actual costs £m)	1.0	0.9	1.0	1.0	0.9	0.9
Motor vehicles (£m)	0.2	0.2	0.3	0.2	0.3	0.2
Total (actual costs £m)	5.0	5.3	4.3	4.8	5.0	4.5

Note

1 Ship costs of £0.2 million have been excluded from 2007-08 to make figures comparable.

Source: National Audit Office analysis

3.18 The Committee of Public Accounts has recognised the major savings by the Household in the cost of air travel and the cost of operating the Royal Train⁶. Significant reductions in the cost of Royal Travel were achieved in the 1990s when the Household replaced 32 Squadron Wessex helicopters⁷ with its own helicopter. From 1 April 2001 the basis of charging for the use of 32 Squadron was also changed from full to marginal cost and fewer and smaller aircraft were used.

3.19 The Committee recommended that the Household should review the future of the Royal Train after Her Majesty's Golden Jubilee celebrations and, in the event of identifying a continuing need to operate the Train, consider alternative options for its provision, including leasing from a commercial operator. In April 2009 the Household awarded the contract for the operation of the Royal Train to D B Schenker following competitive tender. With the assistance of Network Rail, it is currently reviewing the options for retendering the operation and maintenance of the Royal Train.

The Household's Strategy for Increasing Income

3.20 In 2009, following the Committee's recommendations, the Household formally documented an Income Generation Strategy to supplement the funding received from Grant-in-Aid⁸. In 2012-13 the Household generated £11.6 million in comparison with £6.7 million in 2007-08 (**Figure 11**).

Figure 11

Royal Household six-year analysis 2007-08 to 2012-13 (in cash terms) of total income from sources other than the public and its constituents

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Property rental income (£m)	2.0	2.2	2.2	2.3	2.7	3.0
Facilities management charge (£m)	1.8	2.0	2.3	3.2	3.5	3.7
Recharges and other income (£m)	2.9	3.2	3.6	3.6	3.8	4.9
Total income (£m)	6.7	7.4	8.1	9.1	10.0	11.6

Note

1 The Household receives rental income from commercial lettings, the commercial use of facilities outside the secure cordon, and from the salary abatements of staff living in Household accommodation.

Source: National Audit Office analysis

⁶ HC Committee of Public Accounts, *Royal Travel by Air and Rail*, Sixtieth Report of Session 2001–02, HC 529, 17 July 2002.

⁷ 32 Squadron, (also known as The Royal Squadron) is the squadron of the Royal Air Force that operates in the VIP and general air transport roles.

⁸ HC Committee of Public Accounts, *Maintaining the Occupied Royal Palaces*, Twenty-fourth Report of session 2008-09, HC 201, 27 April 2009.

3.21 In accordance with this Strategy the Household increased its income from the commercial letting of properties which generated £1.8 million in 2012-13 and by making use of facilities outside the secure cordon of the Palaces for commercial events such as those held at Perks Field, Kensington Palace which generated £405,000 in 2012-13.

3.22 The Committee also recommended that the Household should work with the Royal Collection Trust to revise the arrangements for the collection and distribution of visitor income. Since March 2009 the Household agreed a basis for recharging the Trust for its use of Buckingham Palace. In 2012-13 the Trust paid £3.7 million to the Household in facilities management charges for Buckingham Palace and Windsor Castle to supplement the Grant, compared with £1.8 million in 2007-08. The Household has also worked with the Trust to extend opening times; the Buckingham Palace Summer Opening in 2012-13 was 78 days compared with 63 days in 2008.

3.23 In addition, the Household has taken opportunities to save costs through the provision of shared services for IT, finance and human resources. The re-charging arrangements with related parties - the Royal Collection Trust, The Prince of Wales Household, the Households of Other Members of the Royal Family and the Privy Purse - for shared services are now subject to annual reviews. In 2012-13 recharges and other income was £4.9 million, an increase of £1.1 million on the prior year, due to income from the BBC Jubilee concert and the impact of higher recharges of IT expenditure to related parties.

Appendix One

The net cost of the Royal Household 2007-08 to 2012-13

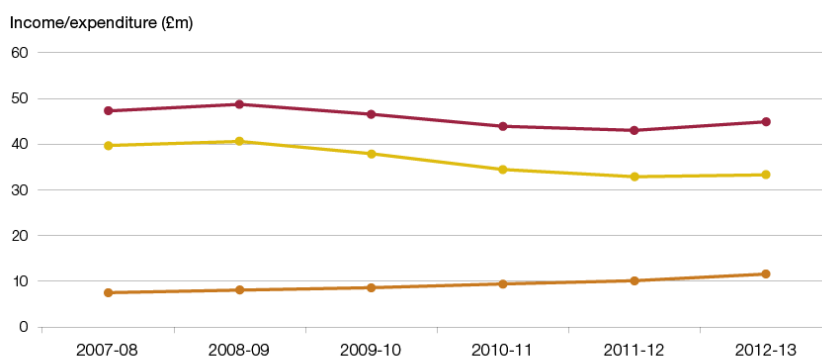
For the purposes of this analysis and to aid comparison of the Household's expenditure and income over the years, figures in this Appendix are shown in real terms (based on GDP).

In the six year period from 2007-08 the Household reduced its net expenditure from £39.7 million to £33.3 million, equivalent to a 16 per cent real terms reduction (**Figure 12**).

Figure 12

Royal Household six-year analysis 2007-08 to 2012-13 of gross expenditure, income and net expenditure (in real terms)

The Household has reduced its net expenditure over the last six years by both reducing gross expenditure and increasing income



In real terms

● Gross expenditure	47.2	48.7	46.5	43.9	43.1	44.9
● Net expenditure	39.7	40.6	37.9	34.5	32.9	33.3
● Income	7.5	8.1	8.6	9.4	10.2	11.6

In cash terms

Gross expenditure	42.0	44.5	43.7	42.3	42.4	44.9
Net expenditure	35.3	37.1	35.6	33.2	32.4	33.3
Income	6.7	7.4	8.1	9.1	10.0	11.6

Notes

- 1 Base year is 2012-13, using HM Treasury's GDP deflator.
- 2 Two one-off events have been removed to aid comparability; the £1.5 million profit from the sale of The Queen's helicopter from Travel in 2009-10 and a VAT refund of £0.9 million from Property in 2010-11.

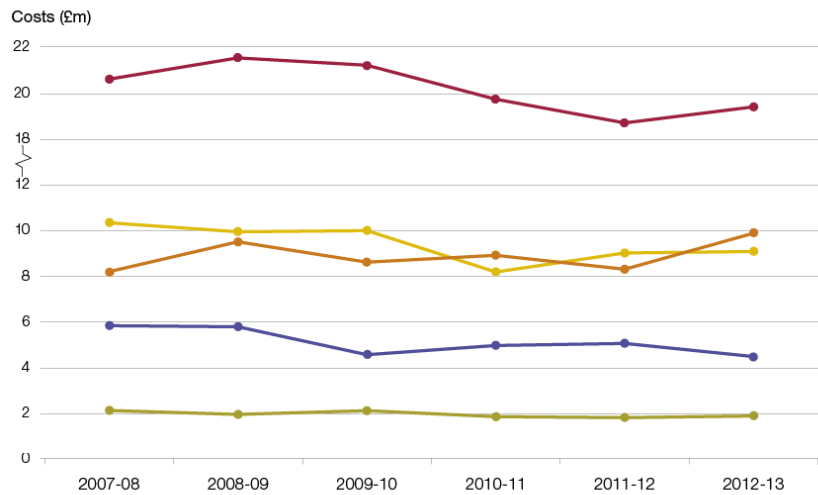
Source: National Audit Office analysis

Since 2007-08 the Household's expenditure on staff costs has reduced by 6 per cent in real terms. Further reductions were achieved mainly through the deferral of property maintenance and the management of Royal Travel. These reductions in spending have been partly offset by increases in utility costs and IT expenditure. **Figure 13** shows the trend for each of the principal areas of Household expenditure since 2007-08.

Figure 13

Royal Household six-year cost analysis 2007-08 to 2012-13 (in real terms)

The Household has reduced its overall expenditure mainly through reducing staff costs, and has also reduced expenditure on property maintenance and Royal Travel



In real terms

● Staff costs	20.7	21.5	21.2	19.9	18.8	19.5
● Property	10.4	10.0	10.0	8.2	9.0	9.1
● Other	8.2	9.5	8.7	8.9	8.3	9.9
● Travel	5.9	5.8	4.6	5.0	5.1	4.5
● Hospitality	2.1	2.0	2.1	1.9	1.8	1.9

In cash terms

● Staff costs	18.4	19.6	19.9	19.2	18.5	19.5
● Property	9.2	9.1	9.5	7.9	8.9	9.1
● Other	7.3	8.7	8.1	8.6	8.2	9.9
● Travel	5.2	5.3	4.3	4.8	5.0	4.5
● Hospitality	1.9	1.8	2.0	1.8	1.8	1.9

Notes

- 1 Base year is 2012-13, using HM Treasury's GDP deflator.
- 2 Two one-off events have been removed to aid comparability; the £1.5 million profit from the sale of The Queen's helicopter from Travel in 2009-10 and a VAT refund of £0.9 million from Property in 2010-11.

Source: National Audit Office analysis

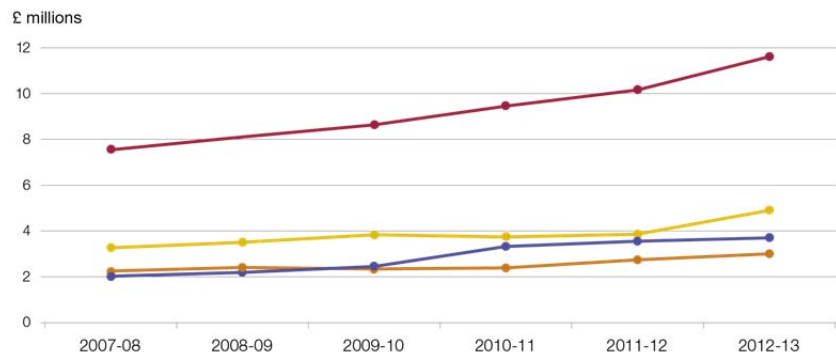
Increasing other sources of income

In 2012-13 the Household generated £11.6 million through income and recharges, compared with 7.5 million (in real terms) in 2007-08, representing an increase of 54 per cent over the past six years (**Figure 14**).

Figure 14

Royal Household six-year analysis 2007-08 to 2012-13 (in real terms) of total income from sources other than the public and its constituents

The Household has increased the income it generates by over 50 per cent in real terms since 2007-08; it has achieved this by increasing revenue from its three main income streams



In real terms¹

● Total income	7.5	8.1	8.6	9.4	10.2	11.6
● Recharges and other income	3.2	3.5	3.8	3.7	3.9	4.9
● Property rental income	2.3	2.4	2.3	2.4	2.7	3.0
● Facilities management charge	2.0	2.2	2.5	3.3	3.6	3.7

In cash terms

● Total income	6.7	7.4	8.1	9.1	10.0	11.6
● Recharges and other income	2.9	3.2	3.6	3.6	3.8	4.9
● Property rental income	2.0	2.2	2.2	2.3	2.7	3.0
● Facilities management charge	1.8	2.0	2.3	3.2	3.5	3.7

Note

¹ Base year is 2012-13, using HM Treasury's GDP deflator.

Source: National Audit Office analysis