

**The Grant-in-aid for the
Maintenance of the Occupied Royal Palaces in
England,
Royal Communications and Information,
and for the Maintenance of Marlborough House**

Annual Report 2004-05

CONTENTS

	Page
Introduction to the Grant-in-aid	44
Maintenance of the Occupied Royal Palaces (“Property Services”)	
Introduction	45
Summary	46
Operating and Financial Review	47
Future Developments	52
Managing Property Services	53
Fire, Health and Safety	55
Performance Indicators and Operating Ratios	56
Income and Expenditure Account	58
Balance Sheet	59
Cash Flow Statement	60
Notes to the Accounts	61
Five Year Information	72
Inflation Indices	77
Royal Communications and Information	
Introduction	78
Summary, Operating and Financial Review, and Future Developments	78
Managing Royal Communications and Information	80
Income and Expenditure Account	81
Balance Sheet	81
Cash Flow Statement	82
Notes to the Accounts	82
Maintenance of Marlborough House	
Introduction, Summary and Future Developments	84
Managing Marlborough House	85
Income and Expenditure Account	86
Balance Sheet	86
Cash Flow Statement	87
Notes to the Accounts	87
Statement on Internal Control	88
Statement of the Keeper of the Privy Purse’s Financial Responsibilities	90
Independent External Auditors’ Report to the Lord Chamberlain	91

INTRODUCTION TO THE GRANT-IN-AID

The Memorandum of Understanding dated 14th March 1991 between the Lord Chamberlain and the Permanent Secretary of the Department of the Environment (since July 1997 the Department for Culture, Media and Sport) sets out the basis on which the Royal Household should use and account for the Grant-in-aid provided to it by the Department. The Memorandum of Understanding requires the Keeper of the Privy Purse, the Royal Household official with responsibility for the Grant-in-aid, to account for its stewardship in an annual report. The annual report for the year to 31st March 2005, dated 10th June 2005, is set out herein.

From 1st April 1999, the Grant-in-aid was increased to include provision for Royal Communications and Information and for the maintenance of Marlborough House. The former was initially established as a separate Grant-in-aid on 1st April 1998 from the Central Office of Information.

The former Department of the Environment, Transport and the Regions previously funded the maintenance of Marlborough House, which is occupied by the Commonwealth Secretariat. The funding was transferred to the Department for Culture, Media and Sport on 1st April 1999, with the Household assuming management responsibility for the maintenance of Marlborough House from 1st July 1999. The Household maintains Marlborough House, in effect, as the Department's contractor and the expenditure is not a cost of the Monarchy.

The three parts of the Grant-in-aid (Property Services, Royal Communications and Information, and Marlborough House) are presented separately in this annual report.

The Grant-in-aid is allocated between these three responsibilities, with the Royal Household able to vire funds between the three areas.

PROPERTY SERVICES

INTRODUCTION

The Property Services Grant-in-aid is the annual funding provided by the Department for Culture, Media and Sport to the Royal Household to meet the cost of property maintenance, and of certain utilities and related services, at:

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

These properties are referred to as the "Occupied Royal Palaces" or the "Estate". The Estate comprises some 360 individual properties with an aggregate floor area estimated at approximately 160,000 square metres. The Buckingham Palace, St. James's Palace and Windsor Castle State Apartments, together with offices, service areas, workshops, stores, coach houses, stables and garages, represent approximately 75% of the total area. In addition there is the Queen's Gallery at Buckingham Palace, some 267 properties available for residential use, mainly by staff and pensioners, and fourteen properties used as communal residential accommodation for staff.

The Occupied Royal Palaces are held in trust for the Nation by The Queen as Sovereign. Their maintenance and upkeep is one of the expenses met by the Government in return for the surrender by the Sovereign of the Hereditary Revenues of the Crown (principally the net surplus from the Crown Estate which amounted to £177 million in the year to 31st March 2004). The Department for Culture, Media and Sport has overall responsibility for the maintenance of and provision of services to the Occupied Royal Palaces; however, with effect from 1st April 1991, management and operating responsibility was transferred to the Royal Household. A new department of the Royal Household, called the Property Section, was established in 1991 to take on this work.

The Occupied Royal Palaces are used by the Sovereign in fulfilling the role and functions of Head of State. Approximately 1,000 people work at the Occupied Palaces including Household staff, Police and Armed Services personnel, Post Office staff and building and maintenance contractors. The Queen invites approximately 70,000 guests annually to the Palaces and there are approximately 1.5 million paying visitors. The net contribution from paying visitors goes towards the general maintenance of the Occupied Palaces, and the upkeep, conservation and presentation of the Royal Collection (for which a separate annual report is published).

SUMMARY

Property Services expenditure for the year to 31st March 2005 (also referred to as 2004-05) was £14.7 million compared with £16.5 million in 2003-04, a decrease of 11% in absolute terms and a reduction of 18% in real terms¹. Net cash expenditure has been reduced by 34% in absolute terms and by 66% in real terms during the fourteen years since 31st March 1991.

Only one project, the refurbishment of York House, had a construction cost of £250,000 or more in 2004-05.

Underlying funding for Property Services is expected to remain at £15 million for the years 2005-06 through to 2008-09. It will then have remained at that level for ten years. An application was made to the Department for Culture, Media and Sport for an increase from 1st April 2006 as part of the Treasury's Spending Review 2004 but the Department was unable to increase the level of the Grant-in-aid. While Property Services was successful in early years in eliminating the building backlog inherited in 1991, this is inevitably building up again since expenditure in real terms is only one third of the 1991-92 level.

Cash demands in 2003-04 relating to the staff welfare and Clarence House projects led to Property Services requiring a cash advance of £0.7 million against the voted grant for 2004-05. This was drawn in February 2004 and the cash available to draw in 2004-05 was accordingly reduced to £14.5 million. However, this reduction was mitigated by the successful appeal against the 2000 rating valuation levied on Buckingham Palace which resulted in a significant refund in 2004-05.

From 1st April 2001 the Household, at its suggestion, has paid for the Court Post Office's postal and telegraph services. These services were funded with the aid of the transfer of some expenditure to the Civil List and a temporary increase in the Grant-in-aid of £0.5 million in 2001-02, decreasing by £0.1 million a year.

¹ "Absolute terms" refers to the movement in net expenditure before taking account of (a) inflation (see page 77), (b) transfers of expenditure to the Grant-in-aid from Government Department Votes and (c) changes in the rate and incidence of VAT. "Real terms" is after adjusting for these three factors.

OPERATING AND FINANCIAL REVIEW

PROPERTY MAINTENANCE

The maintenance and conservation of the important buildings entrusted to its care is the Property Section's principal concern. Its approach is based on pre-planned preventative maintenance and conserving (and wherever possible enhancing) the architectural and historical integrity of the buildings, while at the same time ensuring that the Palaces can continue to be used in the most effective and efficient way as living and working buildings.

The care of the buildings is based on:

- the detailed day-to-day knowledge, experience and observation of members of the Property Section who work in them;
- expert advice from English Heritage and a wide-range of independent consultants with experience in conservation;
- the Household's planned maintenance programme of regular checks, tests and inspections;
- the operating requirements of the Departments of The Queen's Household and of the other Households and organisations which use the buildings; and
- new legislation and regulations as they affect, inter alia, construction, fire precautions and health and safety.

Design and building work on the Estate is governed by a comprehensive set of procedures referred to as the Property Section's "Desk Instructions". These cover, for example, project justifications, planning and specification, competitive tendering, the commissioning and management of contractors and design team consultants, fire precautions, and the control and authorisation of provisional sums, contract variations, overruns and Construction (Design and Management) Regulations. In addition, all projects with a construction cost of £3,500 or more are individually detailed in a rolling works programme, showing projected and actual costs, which is updated on a monthly basis.

MAJOR PROJECTS IN THE YEAR

Refurbishment of York House (£1.2 million)

York House consists of a number of individual but linked buildings, domestic in scale, dating from the 17th century. They have been much altered over the centuries since, such that the floors show evidence of settlement arising from excessive deflection. Though there was no sign of continuing movement, it seems likely that repairs have been carried out to level floors that have deflected under load. Otherwise, the offices appeared to have been well maintained with good internal decorations, albeit due for redecoration. Some specialist decoration was in need of being properly conserved.

In recent years, The Prince of Wales's Office has occupied much of York House, together with the Marshal of the Diplomatic Corps and Central Chancery who remain unaffected by the works. The adjoining Apartment 32, which is included in the refurbishment project, has been a Principal Residence. The purpose of this project was to relocate The Prince of Wales's Office to Apartment 32, while York House was refurbished to accommodate the management and curatorial offices of the Royal Collection.

The central heating system of both buildings and the two main boilers have been replaced. New electrical circuits have been installed in Apartment 32 to supplement the existing cabling. Computer cabling has been installed throughout to allow links to Buckingham Palace. Asbestos has been cleared and fire compartmentation installed. With all major work having been completed, the building is now being redecorated internally.

The total project for York House and the adjacent buildings, including fees and VAT, is expected to have a final cost to the Grant-in-aid of approximately £1.7 million.

Fees

The Property Section has a relatively small in-house staff and, for more complex projects and for those with a construction cost of approximately £0.1 million or more, external architects, structural engineers, mechanical and electrical engineers and quantity surveyors are employed. The majority of design and contract documentation was undertaken by external architects and other consultants for 67 of the 219 projects in progress during the year (61 out of 209 in 2003-04). The 2004-05 fee ratio for these 67 projects, including the appropriate proportion of in-house supervision costs, was 6.8% (10.2% in 2003-04). The overall ratio, including smaller projects, for which the architectural and other services are largely provided by in-house staff, was 17.0% as mentioned on page 58 (17.7% in 2003-04).

GENERAL MAINTENANCE

General maintenance costs comprise preventative/planned and reactive work; the majority is the former. Preventative or planned maintenance includes (a) small areas of redecoration and other repair work costing less than £3,500, (b) regular inspections of lifts, boilers and other equipment and plant, (c) work arising from in-house inspections and previous quinquennial surveys, and (d) routine tasks such as sweeping roofs and paths, and clearing rubbish. Reactive maintenance includes minor repairs to blocked drains, sticking windows, leaking roofs, changing light bulbs, etc.

VISITOR CONTRIBUTION

The net surplus from paying visitors to the Windsor Castle Precincts had been paid by the Royal Collection Trust as a contribution towards the cost of the Fire Restoration. From 1998-99 the Windsor Castle Precincts income has also been used to meet maintenance costs.

During 2004-05 there were 914,000 paying visitors to the Precincts at Windsor Castle (858,000 in 2003-04). This 7% increase was the result of growth in overseas tourism in 2004 which has helped restore numbers to 2002 levels.

SUPERVISION

Supervision includes the payroll cost of the Property Maintenance Central Unit and of the Property Managers, Building Surveyors and Administration staff after netting off recharges to other funding sources. Further details are provided in note 3 to the accounts. This heading also includes the cost of measured and ceiling surveys, property related consultancies and computer equipment and office supplies for property maintenance staff.

OTHER EXPENDITURE

UTILITIES

Considerable emphasis is placed on energy conservation both to save costs and to reduce environmental pollution. An Environment Committee is established within the Property Section as the forum in which energy savings performance is assessed and ideas developed.

Electricity

In 2004-05 approximately 9.5 million kWh (10.8 million kWh in 2003-04) were consumed on the Estate. Combined heat and power units (CHP) located at Buckingham Palace and Windsor Castle, which had previously produced about 20% of this power, ceased to operate fully during 2003-04. The Buckingham Palace CHP units have recently been replaced and the possibility of replacing those at Windsor Castle is being considered.

Gas

The refinement of the Building Energy Management Control Systems at Buckingham Palace and Windsor Castle continues. In 2004-05 approximately 27.6 million kWh (27.6 million kWh in 2003-04) were consumed on the Estate.

Water and Sewerage

Water is provided to Windsor Castle and the Home Park from the Castle's small 19th century waterworks. At other locations water is provided by the public supplier.

Meters monitoring hot water consumption at Buckingham Palace are linked to the Building Energy Management Control System to facilitate analysis and control.

Telephones

Six full time telephone operators are employed at Buckingham Palace. Temporary stand-ins are also used. The exchange at Buckingham Palace is staffed 24 hours a day and received 315,000 incoming calls in 2004-05 (490,000 in 2003-04). These have reduced from a level of around 700,000 four years ago as a result of increased use of Direct Dial-In numbers, mobile telephones and email.

Private wires are required for security purposes and Buckingham Palace has megastream links to Windsor Castle and a fibre optic link between Buckingham Palace and St. James's Palace.

NON-DOMESTIC RATES

A contribution in lieu of non-domestic or business rates is paid in respect of those areas of the Palaces which are not used for domestic purposes (e.g. offices and workshops). This contribution is as notified by the Government Valuation Office and is not within the Household's control. A rating valuation was undertaken in 2000, resulting in valuations broadly doubling. Appeals were lodged several years ago and during 2003-04 the appeal against the St. James's Palace valuation was determined, resulting in a significant refund. The appeal against Buckingham Palace was determined in 2004-05, resulting in a further substantial refund. In addition, Council Tax is paid from the Grant-in-aid for properties that are vacant and for hostel accommodation. The Royal Family and all other residents with self-contained accommodation pay their own Council Tax except for the Chaplain (in accordance with normal arrangements for the clergy).

COURT POST OFFICE

Until 31st March 2001, the Court Post Office's postal and telegraph services were provided free of charge by the Post Office. From 1st April 2001, at its suggestion, the Household was charged for these services. Funding for the Court Post Office arose from the transfer of £0.8 million of expenditure to the Civil List and a temporary increase in the Grant-in-aid by £0.5 million (decreasing by £0.1 million in each of the following five years). As a result of revisions to the level of service and a review of the costs with Royal Mail, significant savings have already been achieved.

Royal Mail provides staff in the Court Post Office, including the Court Postmaster, postmen at Buckingham Palace, telephone system managers, a telegraph clerk at Windsor Castle, drivers and couriers and the Court Post Office provides a wide range of services including:

- the running of Court Post Offices at Buckingham Palace and Windsor Castle, which provide counter and delivery services;
- all postage;
- courier and delivery services between the Palaces, and at other residences for The Queen and The Prince of Wales;

- telephone managers to run the telephone system in the Palaces and other residences when The Queen is there; and
- other services, such as telegrams and despatches.

GARDENS

Buckingham Palace

The garden covers an area of approximately 39 acres including the lake. In addition, the gardeners based at Buckingham Palace are responsible for the flower beds and grass areas at Kensington and St. James's Palaces, an aggregate area of approximately 15 acres. Approximately 30,000 people walk round the Buckingham Palace garden during the summer Garden Parties and over 300,000 people see parts of the garden as they walk out through it, having visited the Buckingham Palace State Apartments. In addition, 42,000 people walk around the garden of Clarence House during summer opening visits.

Windsor Castle

The gardeners operate a one acre glasshouse located in the Windsor Home Park and maintain the surrounding areas. Their principal responsibility is to grow and maintain specimen plants for internal display at Buckingham Palace and Windsor Castle during state visits and other official occasions. Commercial activities include the sale of Christmas poinsettias and a small range of bedding plants.

FURNITURE AND EQUIPMENT

15 craftsmen including a supervisor, cabinet makers, gilders, upholsterers, French polishers and clockmakers are responsible for maintaining and repairing furniture and furnishings used in official areas of the Palaces. Work undertaken for other Households and external funding sources is recharged accordingly.

It also includes the purchase of office furniture and equipment for staff paid from the Grant-in-aid and carpets and furnishings for the Chapels and Central Chancery Offices at St. James's Palace, and the restoration of historic carpets.

RENT AND OTHER RECOVERIES

Rent receivable includes payments in respect of non-official employees housed on the Estate and from pensioners allocated their accommodation since the Household assumed responsibility for property services on 1st April 1991. In addition, income is received from the Ascot Office, Royal Collection Enterprises Limited and the Royal Windsor Horse Show for the use of office accommodation at Buckingham Palace, St. James's Palace and Windsor Castle.

Commercial lettings of apartments have remained at the 2003-04 level of 25.

FUTURE DEVELOPMENTS

Objectives for the five years to 31st March 2010 include the following.

Major property projects

No projects with a construction cost of £0.8 million or more, excluding VAT, are planned to be undertaken or completed during the next five years.

Conservation and repair projects

Various long term repair projects will be commenced, including the renewal of lead and slate roof coverings, re-pointing and repair of stonework, overhaul of windows and replacement of services. These projects may take over 20 years to complete throughout the Estate, but are of a scale that demands a systematic and phased approach. Similarly, a programme of redecoration and re-presentation of fine rooms will be continued.

Developing IT systems, incorporating a comprehensive property database

The financial system, installed in April 2003, will continue to be developed over the next two years. In addition it will be integrated with a property database facilitating access to information about the Estate for architects, property managers and property officers.

Enhancing environmental and waste management

It is planned over the period to develop solutions to deal with environmental and waste management issues. The obsolete combined heat and power units (CHP) located at Buckingham Palace were replaced during 2004-05 and the possibility of replacing those at Windsor Castle is being considered.

Maintaining the level of Grant-in-aid

The Household reduced the voted Grant-in-aid to £15 million for the six years to 31st March 2005 which level will remain for another four years. The £15 million excludes the transitional funding in respect of postal services, the responsibility for which was transferred to the Household in April 2001. It is anticipated that capital funding of approximately £2 million will be made available over the next two years.

Audit Committee

The Audit Committee comprises three members, Nigel Turnbull (non-executive Chairman and Chairman of the Turnbull Committee which produced the Corporate Governance report on Internal Control), Vice Admiral Sir Tom Blackburn (to 4th February 2005 when he was succeeded by Air Vice Marshal David Walker) and Brigadier Sir Miles Hunt-Davis, and reports to the Lord Chamberlain's Committee. It has overall responsibility for monitoring the effectiveness of the system of internal control, including financial, operational and compliance controls and risk management. In undertaking its responsibilities, the Audit Committee has considered reports from both internal and external auditors and management, and will make recommendations to the Lord Chamberlain's Committee throughout the year.

Training

Considerable emphasis is placed on training and an average of two days training was provided for all staff paid from the Grant-in-aid in 2004-05. This training covered subjects such as the maintenance of historic buildings, the use of computer software and keyboard skills, many aspects of safety in the workplace, interpersonal skills and horticultural work. For 2005-06 the objective is that staff will receive an average of three days training.

Employment Policies

The Royal Household is committed to Equal Opportunities and all appointments and promotions are on merit. Applications for positions are invited from all sections of the community through recruitment open days and advertisements placed in national and specialist media and on the internet. Diversity in the workforce is encouraged and training in Equal Opportunities is provided to staff. The effectiveness of the Equal Opportunities policy is monitored.

All staff receive an annual review to assess performance and to identify career development opportunities and training requirements. Employment policies are communicated to all staff and are incorporated in an Employee Reference Manual.

Staff consultation is a key element of the Royal Household's employment policy with a number of channels of communication including bi-monthly team briefings held after the Lord Chamberlain's Committee meetings, a staff survey conducted every three years, regular small group discussions with the Lord Chamberlain and a six monthly open meeting led by the Lord Chamberlain to which all staff are invited. Staff are kept informed of the performance of the Royal Household and are encouraged to contribute ideas and suggestions and to give feedback to senior management as part of the 'continuing improvement' approach. All staff paid from the Grant-in-aid will receive a summary of this report, whilst the full report is available on the Royal Household website.

FIRE, HEALTH AND SAFETY

Fire Protection

Automatic fire detection systems are installed throughout the Estate and are monitored continually to ensure they work effectively. The systems are maintained under fully comprehensive term contracts which are competitively tendered every three years. Systems are reviewed on an annual basis to ensure that they remain suitable for the risk and, if necessary, upgraded to current and appropriate standards.

Automatic fire suppression systems incorporating water sprinklers and drenchers and fixed installations using foam or inert gas, are installed in the main risk areas in kitchens and other high risk areas and to augment the provision of structural fire compartmentation. The further provision of such systems is currently being considered following fire risk assessments carried out in several areas of historical significance within the Estate.

The effectiveness of fire separation and compartmentation proved to be a major factor in the restriction of fire spread and reduction of damage during the fire that occurred at Buckingham Palace in June 2002.

Fire risk assessments and inspections are undertaken on a regular basis by in-house fire safety officers. Inspectors from the Fire Service Inspectorate, Crown Premises Inspection Group, also carry out inspections when appropriate. Fire Certificates remain in force for office accommodation at Buckingham Palace, Windsor Castle and St. James's Palace.

The fire safety strategies used within the Occupied Royal Palaces continue to rely on effective fire prevention practice, early detection, training, active and passive protection methods and risk management. Opportunity is taken to incorporate new technologies and identified best practice into fire safety systems, policies and procedures.

Health and Safety

The Royal Household's Health and Safety Policy Manual and Risk Assessment Procedures ensure that high standards of performance are required. The introduction of Specific Interest Group Meetings and the formation of a central management advisory group, due later this year, will strengthen the current consultation process through the Health and Safety Committee Meetings which take place at London, Windsor and Edinburgh every four months. The review of the Household's Policy has now moved to the specific arrangements for dealing with health and safety issues, compliance with legislative requirements and the way in which the policy is monitored and reviewed.

The Fire, Health and Safety Branch undertakes the role of Planning Supervisor for many of the projects that fall within the requirements of the Construction (Design and Management) Regulations. Other projects, particularly at Windsor or Hampton Court are contracted to competent consultants. The Branch is also heavily involved in providing support and carrying out risk assessments in all areas of the Royal Household's activities, supported by specialist contractors where necessary.

PERFORMANCE INDICATORS AND OPERATING RATIOS

The performance indicators and operating ratios are intended to provide a concise assessment of the way in which the Royal Household manages the Grant-in-aid in the key areas where performance can be quantified. Where percentages in the following table are preceded by a + or – they are quantifying the movement in the expenditure compared with the previous year.

<i>Year to 31st March</i>	2005 <i>Target</i>	2005 Actual	2004 Actual
Funding	%	%	%
Movement in voted Grant-in-aid receivable in:			
• absolute terms	–	-0.7	-0.6
• real terms	<i>-4.4</i>	-8.4	-4.5
Property Maintenance			
Fees and other indirect costs as a percentage of construction costs	<i>18.0</i>	17.0	17.7
Projects with a construction cost of £25,000 or more completed with a cost overrun of no more than:			
• 5% of the let tender amount	<i>70</i>	78	71
• the greater of £20,000 and 10% of the let tender amount	<i>100</i>	100	95
Percentage of fixed price contracts with a construction cost of £25,000 or more let without competitive tendering	–	–	7.7
Telephones			
Movement in costs in real terms	<i>-1.0</i>	-5.3	-0.5
Energy Consumption			
Movement in electricity costs in real terms	<i>+2.9</i>	-11.0	-6.8
Movement in gas costs in real terms	–	-2.6	-5.4
Movement in water costs in real terms	<i>-1.0</i>	-4.3	-4.0
Supplier Payments			
Percentage paid within:			
• 30 days	<i>85</i>	87	83
• 40 days	<i>95</i>	95	94
• 50 days of receipt of invoice	<i>97</i>	97	97
Average Weekly Number of AFD Activations	<i>8</i>	7	7
Staff Numbers	<i>115</i>	110	112

Of the fifteen performance indicators, all of the targets set for 2004-05 (eleven in 2003-04) were met or bettered.

Adjustments to restate expenditure in real terms have been made using the inflation indices given on page 77. Explanations of the performance indicators, where required, are given below.

Fees and other indirect costs percentage (or ratio)

This indicator measures the success in spending as large a proportion as feasible of the funding available for property maintenance on actual maintenance and building work and as small a proportion as feasible on related administration and fees. It is understood that the fees and other indirect costs ratio for work on listed buildings would normally be expected to be in the range of 15% to 20%. Reducing expenditure on fees may, of course, be a false economy if insufficient pre-planning and input from architects and other members of the design team means that building costs increase and/or that the quality of the work is compromised. Comparisons with industry standard rates per square metre are used whenever possible to check that fees have not been reduced at the expense of cost increases in other areas.

Percentage of projects with a construction cost of £25,000 or more (excluding VAT) completed with a cost overrun of no more than (a) 5% of the let tender amount and (b) the greater of £20,000 and 10% of the let tender amount

These are important indicators to assess performance in getting projects completed to budget. Cost overruns for construction projects, particularly those involving historic buildings, are not uncommon and the Royal Household places considerable emphasis on good project management and tight cost control. It is the Household's policy not to include undefined provisional sums and general contingencies in let tender amounts, which would otherwise distort the application of this performance indicator. It is considered by management that completing 70% of projects with an overrun of no more than 5% of the let tender amount and 100% of projects with an overrun of no more than the greater of £20,000 and 10% of the let tender amount are demanding targets.

Average weekly number of AFD activations

This performance indicator monitors the reliability of the automatic fire detection ('AFD') system. The average number of activations in 2004-05 for the occupied Royal Palaces Estate was 7 per week, compared with the benchmark of 12 per week calculated in accordance with the guidance set out in the British Standard for systems of comparable size.

INCOME AND EXPENDITURE ACCOUNT

<i>Year to 31st March</i>	Note	2005 £m	2004 £m
Amount of Grant-in-aid voted by Parliament		15.2	15.3
Advance drawn against 2004-05 Grant-in-aid		(0.7)	0.7
Grant-in-aid drawn down		<u>14.5</u>	<u>16.0</u>
Property Maintenance			
Projects and general maintenance	2	10.1	10.5
Less: visitor contribution		(1.1)	(0.8)
Supervision		1.3	1.5
		<u>10.3</u>	<u>11.2</u>
Utilities		2.0	1.9
Fire, health and safety services		1.1	1.1
Non-domestic rates		(0.2)	0.7
Court Post Office		0.7	0.6
Gardens		0.6	0.6
Furniture and equipment		0.5	0.5
Central administration		0.4	0.5
Rent and other recoveries		(0.7)	(0.6)
Total net expenditure	2, 5	<u>14.7</u>	<u>16.5</u>
Net funding from fixed assets and working capital	9	<u>(0.2)</u>	<u>(0.5)</u>

Total net expenditure in 2004-05 includes approximately £1.6 million in respect of VAT (£1.5 million in 2003-04).

The accounting policies are summarised on pages 61 and 62. The Income and Expenditure Account should also be read in conjunction with the Balance Sheet and Cash Flow Statement on pages 59 and 60 respectively.

The results shown above relate to continuing activities. There are no recognised gains or losses other than included above.

BALANCE SHEET

<i>As at 31st March</i>	Note	2005 £m	2004 £m
Fixed assets	6	10.3	11.1
Current assets			
Debtors	8	2.1	0.9
		2.1	0.9
Creditors : amounts falling due within one year	9	(3.3)	(2.7)
Net current liabilities		(1.2)	(1.8)
Net assets		9.1	9.3
Funds contributed by or (required from) the Department for Culture, Media and Sport			
Fixed asset reserve		10.3	11.1
Required to meet net current liabilities		(1.2)	(1.8)
	9	9.1	9.3

CASH FLOW STATEMENT

<i>Year to 31st March</i>	2005	2005	2004	2004
	£m	£m	£m	£m
Reconciliation of total net expenditure to Grant-in-aid				
Total net expenditure		(14.7)		(16.5)
Interest income	(0.1)		(0.1)	
Depreciation charges	1.2		1.6	
(Increase) / decrease in debtors	(1.2)		1.7	
Increase / (decrease) in creditors	0.4		(3.1)	
		<u>0.3</u>		<u>0.1</u>
Net cash outflow from activities		(14.4)		(16.4)
Interest received		0.1		0.1
Capital expenditure – fixed assets acquired		(0.4)		(0.2)
Net cash outflow before financing		(14.7)		(16.5)
Grant-in-aid drawn down		14.5		16.0
Decrease in cash		(0.2)		(0.5)

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

a) Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules. The accounts have been prepared on an accruals basis, in line with the requirements of Government's Resource Accounting.

b) Income

Grant-in-aid from the Department for Culture, Media and Sport is taken to the Income and Expenditure Account in the year it is paid.

All other income is accounted for on a receivable basis.

c) Visitor contribution towards maintenance

Transfers of monies by the Royal Collection Trust to the Grant-in-aid from the arrangements for charging for entry to the Precincts of Windsor Castle are recognised on an accruals basis.

d) Pensions costs

The Household operates the Royal Households Group Pension Scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Grant-in-aid. Contributions to the scheme are charged to the Income and Expenditure Account so as to spread the cost of pensions over employees' working lives with the Household. Employer's pension contributions are recognised in the Income and Expenditure Account on an accruals basis.

e) Leases

Operating lease rentals are charged to the Income and Expenditure Account on a straight-line basis over the period of the lease.

f) Cost of capital

HM Treasury requires Non-Departmental Public Bodies ('NDPB') to make a notional charge in their accounts for the cost of capital employed in their activities. In view of the funding arrangements for the Royal Household, which is not an NDPB, together with the fact that the Palaces are held by The Queen in trust for the Nation, it is not considered appropriate to include such a charge in the accounts.

g) Fixed assets

The Estate is not attributed any value in the Balance Sheet as the land and buildings are held by The Queen in trust for the Nation and cannot be sold. HM Treasury requires that certain fixed assets should be revalued on a modified historical cost basis. In view of the nature of the fixed assets, it is not considered appropriate to use this basis and historical cost has been applied.

Net expenditure over £5,000 on improvements to the Estate is capitalised, except where the improvements are incidental to general repair and refurbishment work; costs capitalised include related fees and VAT. Fixed assets are depreciated on a straight-line basis at the following rates:

- Automatic fire detection (AFD) 10 years
- Fire compartmentation 30 years
- General building improvements 10 or 30 years
- Refurbishments (commercial lettings only) 7 years
- Lifts (grouped with plant) 20 years
- Water mains 30 years
- Information technology equipment 3 years
- Plant (grouped with lifts) 4 years
- Telephone switches (grouped with IT equipment) 5 years

All assets are subject to a half-year's depreciation charge in the year of acquisition with the exception of plant, information technology and telephone equipment, for which depreciation commences in the month following purchase.

h) Stock

Stock has not been included in the Balance Sheet on the grounds of materiality.

i) Bank overdraft

The Grant-in-aid did not have an overdraft with, or any borrowings from, its banker. The disclosed bank overdraft at 31st March 2005 and 2004 arose from the notional allocation of cash between the three parts of the Grant-in-aid.

j) Reserves

A fixed asset reserve was established in 2000-01 when, as a result of applying the accruals basis in accordance with the requirements of Government Resource Accounting, the past cost of fixed assets previously written off was reinstated on the balance sheet. The net annual movement is the difference between fixed assets acquired and depreciation.

Amount required to meet net current liabilities represents the net liability at the year end payable to third party creditors, net of amounts receivable. This will be settled from future Grant-in-aid funding.

2. SEGMENTAL ANALYSIS

<i>Year to 31st March</i>	Total costs		Maintenance projects	
	2005 £m	2004 £m	2005 £m	2004 £m
Buckingham Palace	5.4	6.4	1.6	1.5
Buckingham Palace Mews and Gardens	1.5	1.7	0.4	0.5
St. James's Palace	2.3	0.9	1.5	0.2
Clarence House and Marlborough House Mews	0.7	2.8	0.3	2.6
Kensington Palace	(0.1)	0.1	0.1	0.2
Hampton Court Mews and Paddocks	0.3	0.3	0.2	0.1
Windsor Castle	3.1	2.6	0.9	0.1
Windsor Castle Royal Mews	0.5	0.4	0.5	0.1
Windsor Home and Great Parks	1.1	1.1	0.5	0.5
Central costs	1.0	1.0	–	–
	<u>15.8</u>	<u>17.3</u>	<u>6.0</u>	<u>5.8</u>
Visitor contribution	(1.1)	(0.8)	–	–
	<u>14.7</u>	<u>16.5</u>	<u>6.0</u>	<u>5.8</u>

Maintenance projects expenditure with a cost of £3,500 or more, analysed by category of expenditure

<i>Year to 31st March</i>	2005 £m	2004 £m
Energy conservation	0.1	0.1
Fire precaution	0.1	0.1
Health and safety	0.5	0.2
Housing	0.5	1.5
Offices and workshops	1.7	2.2
General maintenance	3.1	1.7
	<u>6.0</u>	<u>5.8</u>

Because of the nature of other expenditure, it is not feasible to split total costs between these types of expenditure, so this information is not supplied.

The cost of maintenance projects with a cost of £3,500 or more reconciles with the total maintenance costs as follows:

<i>Year to 31st March</i>	2005	2004
	£m	£m
Maintenance projects with a cost of £3,500 or more:		
• Construction	5.7	5.4
• Fees	0.3	0.4
	6.0	5.8
Less: transfers to fixed assets	(0.2)	(0.1)
Add: depreciation	0.9	1.4
	6.7	7.1
General maintenance	3.4	3.4
Total projects and general maintenance	10.1	10.5

3. STAFF NUMBERS AND COSTS

Establishment

The number of staff paid from the Grant-in-aid was as set out below.

	Number of staff	
<i>As at 31st March</i>	2005	2004
Administration and Accounting	13	14
Property Maintenance Central Unit	3	3
Buckingham Palace and St. James's Palace Maintenance Office	35	35
Kensington Palace, Hampton Court and Windsor Castle Maintenance Office	20	21
Fire, Health and Safety Services	24	24
Craftsmen	15	15
	110	112

Where staff work part-time or have part of their salary charged to the Civil List or the Royal Travel Grant-in-aid, they are recorded according to the proportion of their time devoted to, and paid for by, the Property Services Grant-in-aid.

The Property Maintenance Central Unit is responsible for the overall management of the two Maintenance Offices and for project managing larger jobs with a construction cost of approximately £2 million or more. Smaller maintenance projects are the responsibility of the Maintenance Offices.

Payroll Costs

<i>Year to 31st March</i>	2005	2004
	£m	£m
Salaries	2.6	2.8
Less: housing abatements and charges	(0.1)	(0.1)
Overtime	0.3	0.2
National Insurance	0.2	0.2
Pension contributions	0.6	0.6
	<u>3.6</u>	<u>3.7</u>

Housing abatements and charges are deductions from salaries in respect of the provision of residential accommodation. The majority of the paid overtime arises from attendance at evening receptions and weekend working, for example when the Buckingham Palace State Apartments are open to the public, together with cover for leave and sickness absences for 24 hour shift workers (telephone operators and fire surveillance officers). £0.2 million of the above costs (£0.2 million in 2003-04) was recharged to others.

Payroll costs are included under the following headings within the Income and Expenditure Account.

<i>Year to 31st March</i>	2005	2004
	£m	£m
Projects and general maintenance	0.6	0.6
Supervision	0.8	1.2
Utilities	0.3	0.3
Fire, health and safety services	0.8	0.7
Gardens	0.3	0.3
Furniture and equipment	0.5	0.4
Central administration	0.3	0.2
	<u>3.6</u>	<u>3.7</u>

The salary of the Director of the Property Section, who is 44, was £73,829 from which an abatement in respect of housing of £20,484 was deducted (in the four months to 31st March 2004 these were £23,334 and £6,495 respectively). He is a member of the Royal Households Group Pension Scheme and the increase during the year in his annual pension at 60 was £1,885 and the total accrued annual pension at 60 is £13,843 (£11,958 in 2003-04). In 2003-04 there was also the Director of Property Services who retired on 31st December 2003. His salary for the nine months was £71,859, from which an abatement in respect of housing of £19,887 was deducted. He was a member of the Royal Household Pension Scheme and the total accrued annual pension at 61 was £15,604 and his total accrued pension lump sum at 31st December 2003 was £46,811. 40% of the salary of the Deputy Treasurer to The Queen, who is 58, is borne by the Grant-in-aid, amounting to £37,943 (£35,930 in 2003-04). He is a member of the Royal Households Group Pension Scheme and the increase during the year in his annual pension at 60 was £750 and the total accrued annual pension at 60 is £2,846 (£2,096 in 2003-04). £25,704 (£19,491 in 2003-04) of the Keeper of the Privy Purse's salary, including pension and national insurance contributions, is charged to the Grant-in-aid through the Civil List management charge referred to on page 71.

Other salaries for higher paid employees, which are before the deduction of abatements and other charges in respect of housing, fell into the following bands.

Year to 31st March	Number of staff	
	2005	2004
£60,001 - £65,000	1	—
£55,001 - £60,000	1	1
£50,001 - £55,000	1	2
£45,001 - £50,000	1	1

4. PENSION ARRANGEMENTS

Until 31st March 2002, all full-time permanent employees were entitled to be members of (a) a scheme managed by the Government analogous to the Civil Service pension scheme (the Royal Household Pension Scheme), or (b) a scheme managed by trustees on behalf of the Royal Household (the Royal Households Group Pension Scheme). Both pension schemes provide similar pension benefits based on final pay and are non-contributory for employees (except in respect of widows'/widowers' benefits for the Government managed scheme). Full-time permanent employees joining from 1st April 2002 are entitled to be members of the Royal Household Defined Contribution (Stakeholder) Pension Scheme. Information about the schemes is set out below.

Royal Household Pension Scheme

Employees who transferred from the Department of the Environment or the Property Services Agency ('PSA') when the Royal Household's Property Section was established are members of this scheme. Pension contributions are paid directly to the Consolidated Fund and, in turn, pension benefits are paid directly from the Consolidated Fund on a defined benefit basis. The contribution rate during the year was 15.5% of pensionable pay (15.5% in 2003-04), reflecting a valuation by the Government Actuary's Department.

It was agreed that contributions would remain at 15.5% until 31st March 2005, when they increased to 19.7%. The contribution rates reflect the cost of pension benefits as they are earned by employees.

The pension scheme, managed by the Government, is not a funded scheme. As permitted by FRS 17 'Retirement Benefits', this scheme will continue to be accounted for as if it were a defined contribution scheme.

Royal Households Group Pension Scheme

All full-time permanent employees, who joined before 31st March 2002 and are not members of the Royal Household Pension Scheme, are entitled to be members of the Royal Households Group Pension Scheme which is managed by trustees on behalf of the Royal Household. The scheme provides benefits which are based on final pay and is non-contributory for employees.

The contribution rate for the scheme is based on triennial valuations undertaken by a qualified independent actuary using the projected unit method. The most recent completed valuation was as at 1st January 2003. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It was assumed that the real investment return would be 3.95% per annum, that real salary increases would average 1.5% per annum and that pensions would increase at the rates specified in the scheme rules.

The most recent actuarial valuation showed that the total market value of the assets of the scheme was £11.8 million and that this value of the assets was sufficient to cover 73% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Following this valuation, the employer's contribution rate in respect of staff employed by the Grants-in-aid was set at 22.4% with effect from 1st January 2003 until 31st December 2003 and 22.8% from 1st January 2004, plus an index linked annual payment of £98,000 shared by both the Property Services and Royal Travel Grants-in-aid.

The scheme has several employers and in the latest valuation it is not possible to identify the Grant-in-aid's share of the underlying assets and liabilities in the scheme. As permitted by paragraph 5.3 of FRS 17 'Retirement Benefits', this scheme will continue to be accounted for as if it were a defined contribution scheme.

Royal Household Defined Contribution (Stakeholder) Pension Scheme

Full-time permanent employees joining from 1st April 2002 are entitled to be members of the Royal Household Defined Contribution (Stakeholder) Pension Scheme (“the Stakeholder Scheme”), which is a stakeholder arrangement administered by Legal & General. The Stakeholder Scheme is non-contributory for employees and the Royal Household pays contributions into the fund for each employee. The current rate of contribution is 15% of pensionable salary. Benefits are based on contribution levels linked to investment returns over the period to retirement. Employees can, if they wish, make their own contributions up to the Inland Revenue limits.

5. TOTAL NET EXPENDITURE

Total net expenditure is stated after (crediting) / charging:

<i>Year to 31st March</i>	2005	2004
	£m	£m
Interest	(0.1)	(0.1)
Depreciation	1.2	1.6

The Grant-in-aid is paid quarterly in advance. A working capital management system ensures that funds are placed on interest-bearing deposit to the greatest extent possible. The Auditors’ remuneration for the audit was £60,000 (£58,000 in 2003-04). In addition to the audit fess, £4,000 was paid to the Auditors during 2004-05 for a review of Internal Audit (£nil 2003-04).

6. FIXED ASSETS

Asset category	AFD £m	Fire comp £m	Projects £m	Refurb £m	Plant & lifts £m	Water mains £m	IT £m	Total £m
Cost								
At 1st April 2004	7.0	6.7	4.5	1.0	1.1	–	0.8	21.1
Additions	–	–	–	0.1	0.1	0.2	–	0.4
At 31st March 2005	<u>7.0</u>	<u>6.7</u>	<u>4.5</u>	<u>1.1</u>	<u>1.2</u>	<u>0.2</u>	<u>0.8</u>	<u>21.5</u>
Depreciation								
At 1st April 2004	6.1	1.5	0.7	0.6	0.7	–	0.4	10.0
Charge for the year	0.5	0.2	0.2	0.1	–	–	0.2	1.2
At 31st March 2005	<u>6.6</u>	<u>1.7</u>	<u>0.9</u>	<u>0.7</u>	<u>0.7</u>	<u>–</u>	<u>0.6</u>	<u>11.2</u>
Net book value								
At 31st March 2005	<u>0.4</u>	<u>5.0</u>	<u>3.6</u>	<u>0.4</u>	<u>0.5</u>	<u>0.2</u>	<u>0.2</u>	<u>10.3</u>
At 1st April 2004	<u>0.9</u>	<u>5.2</u>	<u>3.8</u>	<u>0.4</u>	<u>0.4</u>	<u>–</u>	<u>0.4</u>	<u>11.1</u>

Explanation of abbreviations used above

“Fire comp” refers to fire compartmentation. “Projects” refers to various projects in which building improvement has occurred and “Refurb” refers to the betterment element for properties which are to be commercially let.

7. DEBTORS

<i>As at 31st March</i>	2005 £m	2004 £m
Recharges	0.5	0.3
Amounts owed by related parties	<u>1.6</u>	<u>0.6</u>
	<u>2.1</u>	<u>0.9</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

<i>As at 31st March</i>	2005	2004
	£m	£m
Bank overdraft	0.5	0.3
Suppliers and accruals	2.6	2.1
Amounts owed to related parties	0.1	0.1
Other creditors including taxation	0.1	0.2
	<u>3.3</u>	<u>2.7</u>

9. RESERVES

Funds contributed by or (required from) the Department for Culture, Media and Sport		£m
As at 1st April 2004		9.3
Excess of net expenditure over Grant-in-aid for 2004-05		<u>(0.2)</u>
As at 31st March 2005		<u>9.1</u>

10. COMMITMENTS

<i>As at 31st March</i>	2005	2004
	£m	£m
Contractual commitments:		
• Contracted	1.1	0.6
• Authorised but not contracted	3.7	3.8

11. RELATED PARTY TRANSACTIONS

Material transactions during the year with other entities controlled by officials or trustees on behalf of The Queen are set out below.

	2005 £m	2004 £m	2005 £m	2004 £m
	Balance due from:		Recoveries from:	
Civil List	–	–	0.1	0.1
Royal Collection Trust and Royal Collection Enterprises	1.5	0.5	1.7	1.3
Privy Purse	0.1	0.1	0.4	0.3
Other Royal Households	–	–	–	0.1
	Balance due to:		Charged by:	
Civil List	0.1	0.1	0.9	0.5
Privy Purse	–	–	0.1	–

The Civil List, the Royal Collection Trust, the Royal Collection Enterprises, the Privy Purse, and other Royal Households are regarded as related parties. Material transactions with these related parties during the year are summarised above.

Recoveries from Civil List relate to work undertaken by craftsmen employed by the Grant-in-aid. Recoveries made from the Royal Collection include visitor contribution to maintenance, reimbursement of Queen's Gallery development costs, recovery of property refurbishment and maintenance services costs and utilities and staff costs. Recoveries from the Privy Purse include rent for accommodation provided, repairs and maintenance services carried out by Property Section, sales of plants to Farm Shop and staff costs for project management. Recoveries from other Royal Households mainly relate to property maintenance.

Charges to the Grant-in-aid from the Civil List relate to management fees charged for various services provided by Civil List staff including accounting, payroll, internal audit, personnel, catering and cleaning, and IT services. Charges from Privy Purse relate to insurance.

None of the management group or other related parties, except as referred to above, have undertaken any material transactions with the Grant-in-aid during the year.

FIVE YEAR INFORMATION

INCOME AND EXPENDITURE ACCOUNT

<i>Year to 31st March</i>	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Amount of Grant-in-aid voted by Parliament	15.2	15.3	15.4	15.5	15.0
Advance drawn against 2004-05 Grant	(0.7)	0.7	–	–	–
Grant-in-aid drawn down	14.5	16.0	15.4	15.5	15.0
Property Maintenance					
Projects with a cost of £3,500 (was £2,500 for 2001 and earlier) or more:					
• construction	5.7	5.4	6.4	6.7	8.3
• fees	0.3	0.4	0.7	0.6	0.6
	6.0	5.8	7.1	7.3	8.9
Less: transfers to fixed assets	(0.2)	(0.1)	(0.3)	(1.2)	(1.2)
Add: depreciation	0.9	1.4	1.1	1.0	1.0
General maintenance	3.4	3.4	2.9	2.8	2.4
Less: visitor contribution	(1.1)	(0.8)	(1.3)	(0.8)	(2.1)
Supervision	1.3	1.5	1.4	1.1	1.3
	10.3	11.2	10.9	10.2	10.3
Utilities	2.0	1.9	1.7	1.7	1.4
Fire, health and safety services	1.1	1.1	1.0	1.0	0.9
Non-domestic rates	(0.2)	0.7	1.1	1.0	0.8
Court Post Office	0.7	0.6	0.6	0.7	–
Porters and non-domestic cleaners	–	–	–	–	0.5
Gardens	0.6	0.6	0.5	0.4	0.5
Furniture and equipment	0.5	0.5	0.6	0.5	0.5
Central administration	0.4	0.5	0.4	0.4	0.4
Other	–	–	–	–	0.2
Rent and other recoveries	(0.7)	(0.6)	(0.2)	(0.4)	(0.2)
Total net expenditure	14.7	16.5	16.6	15.5	15.3
Net funding from fixed assets and working capital	(0.2)	(0.5)	(1.2)	–	(0.3)

PROPERTY MAINTENANCE

Maintenance projects expenditure analysed by category of expenditure

<i>Year to 31st March</i>	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Energy conservation	0.1	0.1	0.1	–	0.2
Fire precautions	0.1	0.1	0.3	0.2	0.7
Health and safety	0.5	0.2	0.4	0.2	0.3
Housing	0.5	1.5	1.2	0.6	1.3
Offices and workshops	1.7	2.2	2.1	4.3	3.0
General maintenance	3.1	1.7	3.0	2.1	3.4
	6.0	5.8	7.1	7.4	8.9

The classification of expenditure into the categories shown above is on an approximate basis, with each project generally allocated to one category, rather than analysed between a number of categories, according to the main purpose of the work.

Maintenance projects expenditure analysed by location

<i>Year to 31st March</i>	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Buckingham Palace	1.6	1.5	1.9	4.5	4.2
Buckingham Palace Mews and Gardens	0.4	0.5	0.5	0.4	0.6
St. James's Palace	1.5	0.2	0.6	0.6	0.7
Clarence House and Marlborough House Mews	0.3	2.6	2.2	0.2	0.3
Kensington Palace	0.1	0.2	0.2	0.3	0.8
Hampton Court Mews and Paddocks	0.2	0.1	–	0.1	0.1
Windsor Castle	0.9	0.1	0.7	0.7	1.1
Windsor Castle Royal Mews	0.5	0.1	0.2	0.1	0.2
Windsor Home and Great Parks	0.5	0.5	0.8	0.5	0.9
	6.0	5.8	7.1	7.4	8.9

ANALYSIS BY PALACE

<i>Year to 31st March</i>	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Buckingham Palace	5.4	6.4	6.2	7.5	7.6
Buckingham Palace Mews and Gardens	1.5	1.7	1.6	1.5	0.9
St. James's Palace	2.3	0.9	1.7	1.7	1.6
Clarence House and Marlborough House Mews	0.7	2.8	2.4	0.4	0.5
Kensington Palace	(0.1)	0.1	0.5	0.4	1.0
Hampton Court Mews and Paddocks	0.3	0.3	0.1	0.2	0.2
Windsor Castle	3.1	2.6	2.5	2.4	2.9
Windsor Castle Royal Mews	0.5	0.4	0.6	0.4	0.5
Windsor Home and Great Parks	1.1	1.1	1.3	1.0	1.4
Central costs	1.0	1.0	1.0	0.9	0.8
	15.8	17.3	17.9	16.4	17.4
Visitor contribution	(1.1)	(0.8)	(1.3)	(0.9)	(2.1)
	14.7	16.5	16.6	15.5	15.3

STAFF NUMBERS AND COSTS

Establishment

<i>As at 31st March</i>	Number of staff				
	2005	2004	2003	2002	2001
Administration and Accounting	13	14	15	16	17
Property Maintenance Central Unit	3	3	4	5	5
Buckingham Palace and St. James's Palace Maintenance Office	35	35	39	39	39
Kensington Palace, Hampton Court and Windsor Castle Maintenance Office	20	21	21	21	22
Fire, Health and Safety Services	24	24	23	23	23
Craftsmen	15	15	15	15	16
Porters and Non-domestic Cleaners	–	–	–	–	32
St. James's Palace State Apartments	–	–	–	–	6
	<u>110</u>	<u>112</u>	<u>117</u>	<u>119</u>	<u>160</u>

Payroll Costs

<i>Year to 31st March</i>	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Salaries	2.6	2.8	2.7	2.7	3.1
Less: housing abatements and charges	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Overtime	0.3	0.2	0.3	0.2	0.3
National Insurance	0.2	0.2	0.2	0.2	0.3
Pension contributions	0.6	0.6	0.5	0.5	0.5
	<u>3.6</u>	<u>3.7</u>	<u>3.5</u>	<u>3.4</u>	<u>4.0</u>

PERFORMANCE INDICATORS AND OPERATING RATIOS

<i>Year to 31st March</i>	2005	2004	2003	2002	2001
	%	%	%	%	%
Funding					
Movement in voted Grant-in-aid in:					
• absolute terms	-0.7	-0.6	-0.6	–	-0.6
• real terms	-8.4	-4.5	-8.6	-3.3	-6.2
Property Maintenance					
Fees and other indirect costs as a percentage of construction costs	17.0	17.7	19.2	18.0	16.6
Projects with a construction cost of £25,000 or more completed with a cost overrun of no more than:					
• 5% of the let tender amount	78	71	75	89	74
• the greater of £20,000 and 10% of the let tender amount	100	95	96	96	100
Percentage of fixed price contracts with construction cost of £25,000 or more let without competitive tendering	–	7.7	–	–	–
Telephones					
Movement in costs in real terms	-5.3	-0.5	+10.4	+2.0	-7.9
Energy Consumption					
Movement in electricity costs in real terms	-11.0	-6.8	+1.9	+7.0	+22.1
Movement in gas costs in real terms	-2.6	-5.4	+0.9	-2.5	-3.1
Movement in water costs in real terms	-4.3	-4.0	-7.5	-1.3	-8.7
Supplier Payments					
Percentage paid within:					
• 30 days	87	83	87	89	87
• 40 days	95	94	95	97	96
• 50 days of receipt of invoice	97	97	98	98	98
Average Weekly No. of AFD activations	7	7	6	6	7
Staff Numbers	110	112	117	119	160

Adjustments have been made to restate expenditure in real terms using the inflation indices given on page 77.

INFLATION INDICES

		2004-05	2003-04	2002-03	2001-02	2000-01
		%	%	%	%	%
Inflation index						
Retail Price	(a)	2.5	2.1	3.0	2.3	1.9
Tender price ¹	(b)	13.1	4.2	15.2	4.3	10.1
Building cost	(b)	7.5	4.4	6.0	2.6	3.7
Pay	(c)	2.5	3.2	2.5	2.5	2.5
Electricity	(d)	41.8	20.6	0.0	-11.4	-10.3
Gas	(d)	25.3	4.5	4.8	15.4	16.3
Water	(d)	2.3	1.2	0.8	2.9	-5.2
Telephones	(d)	3.0	0.0	2.5	2.5	1.9

Sources

(a) Consumer Prices and General Inflation Branch of the Office of National Statistics.

(b) Building Cost Information Service of The Royal Institution of Chartered Surveyors, Quarterly Review of Building Prices.

(c) Royal Household personnel database.

(d) The indices are in-house estimates based on information from suppliers. This is applied because the consumer price index and 'bulk' prices have very different inflation profiles.

When restating expenditure and income in real terms the Tender Price index is applied to all Property Maintenance expenditure except for General Maintenance and Supervision. The Building Cost index is applied to the external contractor element of General Maintenance expenditure. The Pay index is applied to payroll costs, the relevant utility indices to utilities, the Telephones index to non-pay telephones expenditure and the Retail Price index to all other income and expenditure.

¹ Because an accurate figure for the year to 31st March is not available by the time the annual report is published, the figure for the previous calendar year is used.

ROYAL COMMUNICATIONS AND INFORMATION

INTRODUCTION

Royal Communications and Information is the annual funding for communication and information services in connection with official royal functions and engagements.

The Royal Household incurs expenditure developing and running an overall communications programme, maintaining a Press Office (to liaise with and provide information to the Press and other media), developing the Royal Web Site, providing information officers to administer press arrangements at royal engagements and visits in England and Scotland, and providing general and educational information to the public. General Press Office costs and expenditure incurred in developing and running an overall communications programme are charged to the Civil List. Other costs are charged to the Royal Communications and Information part of the Grant-in-aid. The division of costs between the two funding sources is historic.

SUMMARY, OPERATING AND FINANCIAL REVIEW, AND FUTURE DEVELOPMENTS

SUMMARY

Expenditure has increased from £0.4 million for the year to 31st March 2004 to £0.5 million for the year under review. Of the £0.5 million, £0.1 million (20%)¹ (£0.1 million or 28% in 2003-04) was spent on the services in respect of information officer support for royal visits in England and Scotland. A further £0.4 million (75%) (£0.3 million or 67% in 2003-04) was spent on general communications, mainly salary costs and web site costs.

OPERATING AND FINANCIAL REVIEW

Royal Visits

Government News Network ('GNN') was previously commissioned by the Royal Household to provide media facilities covering official visits by Members of the Royal Family throughout England; the Scottish Executive deal with royal visits to Scotland. Separate arrangements apply for royal visits to Wales and Northern Ireland. During 2003-04 GNN services covering The Queen's official visits throughout England were phased out and in 2004-05 The Queen's engagements were fully covered by the Buckingham Palace Press Officers.

The GNN currently provides:

- (a) electronic and conventional press announcements distributed to national and regional media; 145 press announcements were made in this way (130 in 2003-04); and

¹ Ratios are based on actual numbers rather than those rounded to nearest £0.1million

(b) daily media summaries of current news stories for The Prince of Wales when he is on official visits overseas. (Similar summaries are produced by the FCO for The Queen, when on official visits overseas.)

General Communications

The Press Office salaries comprise salaries paid directly and recharges as explained on page 80.

The Royal Web Site is a primary source of reference for media and members of the public. It contains information on the work and constitutional role of The Queen, biographies of Members of the Royal Family, and the history and use of Royal Palaces, as well as press announcements and a history section on the English, Scottish and United Kingdom Crowns. Since the redeveloped Web Site was opened by The Queen in November 2001, in-house editing using authoring software has become an established feature enabling topical additions to be made to the monthly Royal Web Site news magazine in between editions. The Web Site attracts 300,000 visitors and 1.5 million pages viewed per week.

In 2004-05, special projects included the redesign of the web site home page and global navigation, the creation of new on-line media centre featuring a Court Circular archive and searchable Royal Diary, new sections in the Welsh and Scots Gaelic languages, and the creation of a dedicated online recruitment section.

Other recent public information projects have included the production of professionally-designed information sheets and posters intended for children. This material, published in September 2004, is being distributed to pupils and children who request information about The Queen and the Monarchy.

FUTURE DEVELOPMENTS

Future and current developments include:

- refreshment of the Monarchy Today section, strengthening the presentation of the role of Monarchy in the UK and Commonwealth by providing richer, more interactive content such as streamed video and audio, and improving usability through navigation;
- improving accessibility on the web site, allowing visitors with visual and motor difficulties to use the site;
- further work on an on-line education section for children to enable children at Key Stage 2 to have a good understanding of the role and duties of the Monarchy;
- the on-line commemoration of The Queen's 80th birthday in 2006; and
- scoping work for the complete redesign of the British Monarchy web site within the next 18 months.

MANAGING ROYAL COMMUNICATIONS AND INFORMATION

Operating Approach

The Royal Household's objectives in managing communications and information expenditure are set out in the Memorandum of Understanding between the Lord Chamberlain and the Chief Executive of the Central Office of Information. This is due to be replaced by a revised Memorandum of Understanding to consolidate the three parts of the Grant-in-aid. The objectives of royal communications and information are:

- (a) to seek to contract in the most economic and efficient way for the supply of communications and information services, consistent with the requirement to provide clear and comprehensive communications and information about royal functions and engagements, and
- (b) to ensure that members of the Household take financial considerations fully into account when framing, reaching, or giving effect to decisions which bear upon the Grant-in-aid.

Senior Management

Within the Royal Household, the Communications and Press Secretary is responsible for organising the provision of communications and information services. She is supported on the financial side, by the Deputy Treasurer to The Queen.

The group responsible for the management of communications and information on a day to day basis is:

- Communications and Press Secretary Penny Russell-Smith
- Deputy Treasurer to The Queen Stephen Cawley
- Financial Controller Susan Glaum

The Queen's Private Secretary, Rt. Hon. Sir Robin Janvrin, has overall responsibility for policy matters and the Keeper of the Privy Purse, Alan Reid, for financial matters.

Personnel

In addition to the Communications and Press Secretary and her assistant, there is a Deputy Press Secretary and three Assistant Press Secretaries, two Press Officers, one Information Secretary (based in Scotland), one Information Officer, one Web Site Editor and one Deputy Web Editor, and one Assistant Press Officer. Three are paid directly by the Grant-in-aid and ten are employed by the Civil List. For those ten Civil List employees, approximately 17% of their time is devoted and charged to Grant-in-aid duties.

INCOME AND EXPENDITURE ACCOUNT

<i>Year to 31st March</i>	Note	2005 £m	2004 £m
Amount of Grant-in-aid voted by Parliament		<u>0.5</u>	<u>0.5</u>
Grant-in-aid drawn down		<u>0.5</u>	<u>0.5</u>
Royal Visits		<u>0.1</u>	<u>0.1</u>
General Communications			
Press Office salaries		0.2	0.2
Web Site		0.1	0.1
Other		0.1	–
		<u>0.4</u>	<u>0.3</u>
Total net expenditure	2	<u>0.5</u>	<u>0.4</u>
Net funding for working capital		<u>–</u>	<u>0.1</u>

BALANCE SHEET

<i>As at 31st March</i>	2005 £m	2004 £m
Current assets		
Cash at bank	0.1	–
Creditors : amounts falling due within one year		
Suppliers	(0.1)	–
	<u>(0.1)</u>	<u>–</u>
Net Assets	<u>–</u>	<u>–</u>
Funds contributed by the Department for Culture, Media and Sport	<u>–</u>	<u>–</u>

CASH FLOW STATEMENT

	2005 £m	2004 £m
Reconciliation of total net expenditure to Grant-in-aid		
Total net expenditure	(0.5)	(0.4)
Increase in creditors	0.1	–
Net cash outflow from activities and before financing	(0.4)	(0.4)
Grant-in-aid drawn down	0.5	0.5
Increase in cash	0.1	0.1

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

a) Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules. The accounts have been prepared on an accruals basis.

b) Pensions costs

The Household operates the Royal Households Group Pension Scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Grant-in-aid. Contributions to the scheme are charged to the Income and Expenditure Account so as to spread the cost of pensions over employees' working lives with the Household. Employer's pension contributions are recognised in the Income and Expenditure Account on an accruals basis.

2. TOTAL NET EXPENDITURE

The Auditors' remuneration for the audit was £2,000 (£2,000 in 2003-04). During 2004-05 and 2003-04 no other services were provided by the Auditors except for the audit.

3. PENSION ARRANGEMENTS

Three members of staff are directly employed by the Grant-in-aid. Details of the pension schemes operating for employees of the Royal Household are provided in note 4 to the Property Services accounts (page 66).

4. RELATED PARTY TRANSACTIONS

	2005 £m	2004 £m	2005 £m	2004 £m
	Balance due to:		Charged by:	
Civil List	–	–	0.1	0.1
Other Royal Households	–	–	0.1	0.1

The Civil List and other Royal Households are regarded as related parties. Material transactions with these related parties during the year are summarised above.

Charges to the Grant-in-aid are mainly from the Civil List and relate to management fees charged for various services provided by Civil List staff including accounting, payroll, internal audit, personnel, catering and cleaning, IT and ISM services.

Charges to the Grant-in-aid from other Royal Households relate to payments to The Prince of Wales' office to cover costs in respect of The Prince of Wales's royal function and engagements.

MARLBOROUGH HOUSE

INTRODUCTION, SUMMARY AND FUTURE DEVELOPMENTS

INTRODUCTION

This is the annual funding introduced in 1999-00 to meet the cost of property maintenance at Marlborough House, which is occupied by the Commonwealth Secretariat and the Commonwealth Foundation. The maintenance was previously funded by the Department for Transport, Local Government and the Regions. As the Royal Household had a property services unit nearby, and as Marlborough House is held by The Queen as Sovereign, the Household agreed to take on responsibility for the maintenance of the building. The funding was accordingly transferred to the Department for Culture, Media and Sport so that it could be incorporated into the Royal Household's existing Grant-in-aid.

As for the maintenance of the Occupied Royal Palaces in England, the objectives were to facilitate value for money and improve accountability and transparency by enabling a detailed annual report to be published.

The Royal Household is only responsible for major building work and the Custody Guards. Costs in respect of minor and grounds maintenance, specialist term contracts, utilities and other sundry matters are recovered from the Commonwealth Secretariat.

The Royal Household maintains Marlborough House in effect as the Department for Culture, Media and Sport's contractor. The expenditure is not a cost of the Monarchy.

SUMMARY

The Grant-in-aid allocation for the year to 31st March 2005 was £0.6 million (£0.6 million in 2003-04), against which £0.4 million (£0.3 million in 2003-04) was spent leaving a surplus of £0.2 million (surplus of £0.3 million in 2003-04). £0.1 million or 24%¹ (£0.1 million or 19% in 2003-04) was incurred on property maintenance, principally in respect of the renewal of lead roof coverings over the main reception hall, the replacement of emergency lighting and the alteration of lobby areas. £0.3 million or 66% (£0.2 million or 68% in 2003-04) was spent on security cover.

FUTURE IMPROVEMENTS

The main works in the maintenance programme include the completion of the renewal of lead roof coverings together with a five year programme of external decorations. Other significant projects include an upgrade to CCTV systems and redecorations of offices, corridors and common areas.

¹ Ratios are based on actual figures rather than those that have been rounded to the nearest £0.1million

MANAGING MARLBOROUGH HOUSE

Operating Approach

The Royal Household's objectives in managing the maintenance of Marlborough House will be set out in the revised Memorandum of Understanding, to consolidate the Household's responsibilities in respect of the three parts of the Grant-in-aid, between the Lord Chamberlain and the Permanent Secretary of the Department for Culture, Media and Sport. They are:

- (a) to maintain the building to a standard consistent with the Commonwealth Secretariat's operational requirements and with the architectural and historic status of the building in a manner which ensures value for money; and
- (b) to that end to organise and obtain works and other property services in the most economic, efficient and effective way.

Senior Management

Royal Household staff work closely with Commonwealth Secretariat staff in order to achieve the above aims. The group responsible for the management of this work on a day to day basis is:

- | | |
|------------------------------------|------------------------------------|
| • Director of the Property Section | Graham Sharpe |
| • Deputy Treasurer to The Queen | Stephen Cawley |
| • Fire, Health and Safety Manager | Nick Jordan (to 14th January 2005) |
| • Financial Controller | Susan Glaum |
| • Property Manager | Roy Brown |

The Keeper of the Privy Purse, Alan Reid, has overall responsibility for financial and policy matters.

Personnel

No Royal Household staff work entirely on Marlborough House duties. The cost for time devoted to Marlborough House duties by Household staff is charged as a management fee.

INCOME AND EXPENDITURE ACCOUNT

<i>Year to 31st March</i>	Note	2005 £m	2004 £m
Amount of Grant-in-aid voted by Parliament		<u>0.6</u>	<u>0.6</u>
Grant-in-aid drawn down		<u>0.6</u>	<u>0.6</u>
Property Maintenance			
Fees and construction		0.1	0.1
Security			
Custody Guards		0.3	0.2
Commonwealth Secretariat			
General maintenance		0.2	0.2
Recovered from Commonwealth Secretariat		<u>(0.2)</u>	<u>(0.2)</u>
		-	-
Total net expenditure		<u>0.4</u>	<u>0.3</u>
Net funding for working capital	2	<u>0.2</u>	<u>0.3</u>

BALANCE SHEET

<i>As at 31st March</i>	Note	2005 £m	2004 £m
Current assets			
Cash		0.4	0.2
Debtors		<u>0.1</u>	<u>0.1</u>
		0.5	0.3
Creditors : amounts falling due within one year			
Suppliers		<u>(0.1)</u>	<u>(0.1)</u>
Net assets		<u>0.4</u>	<u>0.2</u>
Funds contributed by the Department for Culture, Media and Sport	2	<u>0.4</u>	<u>0.2</u>

CASH FLOW STATEMENT

<i>Year to 31st March</i>	2005 £m	2004 £m
Reconciliation of total net expenditure to Grant-in-aid		
Total net expenditure	(0.4)	(0.3)
Decrease in creditors	—	(0.1)
Net cash outflow from activities and before financing	(0.4)	(0.4)
Grant-in-aid drawn down	0.6	0.6
Increase in cash	0.2	0.2

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules. The accounts have been prepared on an accruals basis.

2. RESERVES

Funds contributed by the Department for Culture, Media and Sport	£m
As at 1st April 2004	0.2
Net funding for working capital	0.2
As at 31st March 2005	0.4

3. COMMITMENTS

<i>As at 31st March</i>	2005 £m	2004 £m
Contractual commitments:		
• Contracted	0.1	—
• Authorised but not contracted	0.1	0.1

STATEMENT ON INTERNAL CONTROL

A system of internal control is in place to safeguard the assets purchased from, and the funds of, the Grant-in-aid and to give reasonable assurance that the policies of the operations funded from the Grant-in-aid are implemented and their aims and objectives met.

The system of internal control is based on an ongoing process designed to (a) identify and evaluate the nature and extent of the risks to the achievement of the aims and objectives for operations funded from the Grant-in-aid, set out in its five year plan, and (b) manage these risks efficiently, effectively and economically. For reasons of cost and practicality the system of internal control is intended to manage rather than to eliminate the risks and to give reasonable rather than absolute assurance.

The Keeper of the Privy Purse has considered the following principal systems in reviewing the effectiveness of the system of internal control for the Grant-in-aid.

- **Control environment:** the operations funded from the Grant-in-aid have organisational structures with clearly defined levels of responsibility and authority and appropriate operational and financial reporting procedures. The Keeper of the Privy Purse delegates responsibility for the day to day running of the Grant-in-aid to the Management Group, which, for Property Services and the maintenance of Marlborough House, is headed by the Director of the Property Section and, for Royal Communications and Information is headed by the Communications and Press Secretary. The employees paid from the Grant-in-aid perform their duties with reference to agreed policies covering confidentiality and security, health and safety, and codes of conduct. Operating procedures and controls are documented for key processes in comprehensive Desk Instructions.
- **Financial reporting and information systems:** there are comprehensive planning and financial reporting procedures for expenditure from the Grant-in-aid, which include the preparation of an annual budget and a five-year plan, both of which are approved by the Lord Chamberlain's Committee. Quarterly results are reported against budget. Significant variances to budget and key performance indicators are examined quarterly by the Management Group to assess progress towards objectives and appropriate action is taken where required. Forecasts are regularly updated throughout the year, taking into account performance for the year to date.

- **Risk management:** the identification of major financial, legal, regulatory and operational risks within the operations funded from the Grant-in-aid has been continued during the year with the assistance of the Management Group and Internal Audit. A risk and control assessment has been prepared, which involved identifying the types of risks faced by the Grant-in-aid and weighting them in terms of potential impact and likelihood of occurrence. The Risk Register, which is derived from the risk and control assessment, documents the major risks to which the operations funded from the Grant-in-aid are exposed and the controls, insurance and/or strategies in place to manage such risks. A method of management reporting on the effectiveness of the controls in operation, and internal audit testing of the controls in operation are in place. The Risk Register is also revised and monitored in regular meetings by management.
- **Audit and supervision:** the Grant-in-aid is subject to extensive supervision and control. The Royal Household's management of the Grant-in-aid is subject to supervision by the Department for Culture, Media and Sport. The Household has an internal audit function which operates to standards defined in the Government Internal Audit Manual. The continuing risk assessment process undertaken by management forms the basis of the annual internal audit plan, which is approved by the Audit Committee. Progress in implementing internal audit recommendations is monitored by management and copies of internal audit reports are made available to the Department for Culture, Media and Sport. The Internal Audit Manager reports to the Committee annually on the adequacy of the internal control system and on whether any losses arising through misconduct, fraud or any other irregularity have been identified. Quarterly audits of property expenditure to check that the Desk Instructions and building regulations and technical standards have been complied with and value for money obtained are also undertaken by independent chartered surveyors. Independent surveys of fire precautions are undertaken by the Home Office for those buildings which require a fire certificate.

In his review of the effectiveness of the system of internal control, the Keeper of the Privy Purse takes account of the work of the internal auditors and managers 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 Keeper of the Privy Purse has been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Alan Reid

Keeper of the Privy Purse

10th June 2005

STATEMENT OF THE KEEPER OF THE PRIVY PURSE'S FINANCIAL RESPONSIBILITIES

Under the terms of: (a) the Memorandum of Understanding dated 14th March 1991 and the Financial Memorandum dated 26th March 1991 in respect of Property Services, (b) the Memorandum of Understanding and Financial Memorandum dated 24th July 1998 in respect of Royal Communications and Information, and (c) the transfer of responsibility for the maintenance of Marlborough House, the Keeper of the Privy Purse is responsible for ensuring that:

- the administration of the Grant-in-aid fully accords with Government Accounting and other guidance that may be notified to the Royal Household by the Department for Culture, Media and Sport;
- the Grant-in-aid is applied only for the purposes approved by the Lord Chamberlain and the Secretary of State for Culture, Media and Sport and set out in the Memoranda of Understanding;
- the Household maintains the books and records which are proper and necessary to enable it to discharge its responsibility, as set out in the Financial Memoranda, for the income and expenditure;
- the Grant-in-aid is used economically, efficiently and effectively to secure best value for money, in accordance with propriety and regularity;
- staff paid from the Grant-in-aid take financial considerations fully into account at all stages in framing, reaching and executing decisions in so far as the Grant-in-aid is concerned; and
- proper, effective and timely follow up action is taken to all internal and external audit reports.

The Keeper of the Privy Purse is also responsible for safeguarding the assets acquired from Grant-in-aid funds and hence for taking reasonable steps to prevent and detect fraud and other irregularities. He is required to submit this annual stewardship report to the Lord Chamberlain and the Secretary of State for Culture, Media and Sport.

The Annual Report is also published on the Royal Household website; the maintenance and integrity of the website is the responsibility of the Lord Chamberlain's Committee.

Alan Reid
Keeper of the Privy Purse
10th June 2005

INDEPENDENT EXTERNAL AUDITORS' REPORT TO THE LORD CHAMBERLAIN

We have audited the accounts comprising the Income and Expenditure Account for Property Services, the Income and Expenditure Account for Royal Communications and Information and the Income and Expenditure Account for Marlborough House on pages 58, 81 and 86 respectively, the Balance Sheets on pages 59, 81 and 86 respectively and the Cash Flow Statements on pages 60, 82 and 87 respectively (“the accounts”) which have been prepared using the accounting policies set out on pages 61 and 62, 82 and 87 respectively.

This report is made solely to the Lord Chamberlain in accordance with our terms of engagement. Our audit work has been undertaken so that we might state to the Lord Chamberlain those matters we are required to state to him in our auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Lord Chamberlain, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Keeper of the Privy Purse and the Independent External Auditors

As described on page 90 the Keeper of the Privy Purse is responsible for preparing the Annual Report, including the accounts, which includes an account of the stewardship of the Grant-in-aid for the Maintenance of the Occupied Royal Palaces in England, for Royal Communications and Information, and for the Maintenance of Marlborough House (“the Grant-in-aid”). The Keeper of the Privy Purse is also responsible for ensuring the regularity of financial transactions. Our responsibilities, as independent auditors, are established by our terms of engagement, the Auditing Practices Board and by our profession’s ethical guidance.

We report to you our opinion as to whether the accounts are fairly presented and have been properly prepared on the stated basis. We also report to you our opinion on certain other matters specified in our engagement letter and listed at (a) to (g) under our opinion below.

We review whether the statement on pages 88 and 89 reflects the Royal Household’s compliance with HM Treasury’s guidance *Corporate Governance: statement on internal control* in respect of the Grant-in-aid and we report if it does not. We are not required to form an opinion on the effectiveness of the Royal Household’s internal controls for the Grant-in-aid.

We read the other information contained in the Annual Report, including the statement on internal control and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Keeper of the Privy Purse in preparation of the accounts, and of whether the accounting policies are consistently applied and adequately disclosed and conform with Government Accounting and other guidance applicable to the Grant-in-aid.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, where caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the accounts.

Opinion

In our opinion the accounts have been properly prepared on the basis of the accounting policies set out on pages 61 and 62, 82 and 87 so as to present the incomes and expenditures and cash flows for the year ended 31st March 2005 and the balance sheets at that date.

As required by our terms of engagement we are able to report that, in our opinion, in all material respects:

- (a) proper books and records have been maintained during the year under review by the Royal Household in respect of the Grant-in-aid incomes and expenditures, cash flows and balances;
- (b) the accounts are in agreement with the books of account and other relevant records;
- (c) the requirements of Government Accounting, as notified to the Royal Household by the Department for Culture, Media and Sport, have been complied with;
- (d) all information and explanations which we think necessary for the purpose of our audit have been obtained;
- (e) the information contained in the Annual Report relating to income and expenditure from 1st April 2003 to 31st March 2005 for Property Services on pages 58, 61 to 68 and 71 to 77, income and expenditure from 1st April 2003 to 31st March 2005 for Royal Communications and Information on pages 81 to 83, and income and expenditure from 1st April 2003 to 31st March 2005 for Marlborough House on pages 86 and 87, is consistent with the underlying books and records of Property Services. In addition, the information contained in the annual report relating to the balance sheets at 31st March 2004 and 31st March 2005 for Property Services on pages 59 and 69 to 70, the balance sheets at 31st March 2004 and 31st March 2005 for Royal Communications and Information on page 81, and the balance sheets at 31st March 2004 and 31st March 2005 for Marlborough House on page 86 and 87, is consistent with the underlying books and records of Property Services;
- (f) the Grant-in-aid has been expended only for the purposes described in the Memorandum of Understanding and supporting Appendix and Schedule, dated 14th March 1991, between the Lord Chamberlain and the Permanent Secretary of the Department of the Environment (for Property Services), and the Memorandum of Understanding dated 24th July 1998, between the Lord Chamberlain and the Chief Executive of the Central Office of Information (for Royal Communications and Information); and
- (g) the Royal Household has observed the reporting requirements of the Financial Memoranda for the Grant-in-aid during the year under review.

KPMG LLP
Chartered Accountants

London
10th June 2005