



**The Sovereign Grant  
and  
Sovereign Grant Reserve**  
*Annual Report and Accounts  
2013-14*

*The Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2013-14*





SOVEREIGN GRANT ACT 2011

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and  
Sovereign Grant Reserve**  
*Annual Report and Accounts*  
*2013-14*

*Presented to Parliament pursuant to Section 2 and Section 4  
of the Sovereign Grant Act 2011*

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FRONT COVER: Queen Elizabeth II and The Duke of Edinburgh arrive at the Medical Research Council in Cambridge.

Photograph provided courtesy of Chris Radburn/PA Wire

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# THE SOVEREIGN GRANT

The Sovereign Grant Act 2011 which came into effect from 1 April 2012 consolidated the funding provided to support the official duties of The Queen and maintain the Occupied Royal Palaces<sup>1</sup> that up until 31 March 2012 had been provided under the Civil List and the Grants-in-aid for the Maintenance of the Occupied Royal Palaces, Royal Travel and Communications and Information.

The Queen's official expenditure is met from public funds in exchange for the surrender by The Queen of the revenue from the Crown Estate. The Sovereign Grant is calculated based on 15% of the income account net surplus of the Crown Estate for the financial year two years previous. The Crown Estate surplus for the financial year 2011-12 amounted to £240.2 million thereby producing a Sovereign Grant of £36.1 million for 2013-14. The application of this formula to the Crown Estate surplus for 2010-11 of £230.9 million would have produced a Sovereign Grant of £34.7 million for 2012-13 but with the agreement of the Royal Trustees, the Sovereign Grant was initially set at £31.0 million.

Official expenditure met by the Sovereign Grant in 2013-14 amounted to £35.7 million (2012-13: £33.3 million), an increase of £1.9 million (5.7%) in real terms compared to the previous year. The equivalent of the excess of the Sovereign Grant and other income over expenditure of £0.4 million in 2013-14 was transferred to the Sovereign Grant Reserve (2012-13: a drawdown of £2.3 million from the Sovereign Grant Reserve). Expenditure met by the Sovereign Grant in 2013-14 includes £2.6 million of VAT (2012-13: £1.9 million).

<sup>1</sup> The Occupied Royal Palaces are Buckingham Palace, St James' Palace, Windsor Castle, Hampton Court Mews, Windsor Home Park and parts of Kensington Palace, The Palace of Holyroodhouse is maintained by Historic Scotland.

# THE OFFICIAL DUTIES OF THE QUEEN

The Sovereign's role comprises two distinct elements:

The role of **Head of State**, which is a formal constitutional concept, common to all nations, and involves the official duties which The Queen, by constitutional convention, must fulfil.

The role of **Head of Nation**, a much more symbolic role in the life of the Nation, involving duties which are not directed by the constitution but which The Queen carries out where appropriate or necessary.

Since the United Kingdom has no codified constitution, the role of Monarchy is defined by convention – a non-legal but nevertheless binding rule.

Both of these roles are supported by the Sovereign Grant.

## HEAD OF STATE

The Queen is Head of State of the United Kingdom (and fifteen other independent countries<sup>1</sup>).

Every country has a Head of State with constitutional and representational duties, often laid down in law. The Queen is no different, though the scope of her duties has generally been defined by constitutional convention rather than by statute.

The Queen is politically impartial and exercises her constitutional powers on the advice of Government ministers. The Royal Household works very closely with a number of Government Departments on a wide range of matters, such as constitutional and legislative affairs, security, travel and ceremonial occasions.

The conditions of the Royal Prerogative<sup>2</sup> are such that it is difficult to estimate the extent of their provision due to the uncertain nature of the circumstances that might prompt their use (such as a 'hung parliament'). This is also true of The Queen's role of Head of Nation, in which She and the Royal Household must be prepared to react appropriately to unpredictable national events. This requires the institution of Monarchy to be flexible, while maintaining the highest possible standards befitting of The Household of The Head of State.

The Queen's constitutional duties include:

- The State Opening of Parliament;
- The appointment of the Prime Minister;
- The approval of Parliamentary legislation;
- The approval of official appointments;
- The approval of secondary legislation through the Privy Council;
- Representational duties as Head of State – paying and receiving State Visits to and from other Heads of States;
- Receiving the credentials of foreign Ambassadors;
- Regular confidential Audiences with the Prime Minister.

<sup>1</sup> Antigua and Barbuda, Australia, Bahamas, Barbados, Belize, Canada, Grenada, Jamaica, New Zealand, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Solomon Islands, and Tuvalu.

<sup>2</sup> Royal Prerogative is the term given to the formal powers of the Crown within the executive process of British politics and which form part of common law.

The Queen is also:

- The Fount of Honour, and all honours are awarded in Her name (although, with notable exceptions, most are awarded on the advice of the Government);
- Head of the Armed Forces;
- Head of the Judiciary;
- Head of the Civil Service;
- Supreme Governor of the Church of England.

In all these roles The Queen provides a sense of continuity, a focus for loyalty and an assurance of political independence and neutrality for these institutions.

## HEAD OF NATION

The Queen's role as Head of Nation is as significant as Her role as Head of State, and can be divided into four key elements – identity, continuity, achievement and service.

### **Unity and National Identity**

The Queen has a significant function as a symbol of national identity, unity and pride.

For example, it is as Head of Nation and not as Head of State that The Queen:

- Makes the annual Christmas Broadcast;
- Sends messages of congratulation on national achievements;
- Sends messages of condolence at times of national tragedy.

### **Continuity and Stability**

The Monarchy provides an important sense of continuity and stability at a time of rapid social, cultural and technological change.

The regular rhythm of the Monarchy provides reassurance to many people. This is helped by:

- Annual traditions like the State Opening of Parliament, Trooping the Colour, Garter Day, Maundy Service, Holyrood Week, Royal Ascot Week;
- Anniversaries marked over the course of The Queen's reign – Silver Jubilee, Golden Jubilee, Diamond Jubilee, Coronation and family anniversaries to which people can relate - Diamond Wedding Anniversary etc;
- The Queen's impressive personal continuity – has known twelve Prime Ministers and met eleven of the last twelve US Presidents.

In this way The Queen and the Monarchy are a stable fixture in many people's lives.

## **Achievement and Success**

One of the modern Monarchy's principal purposes is to recognise, on behalf of the Nation, achievement, excellence and success in our society. This is not just achieved by the Honours system, but by a more informal range of prizes, events and awards. These include:

### *Prizes & Awards*

- The Queen's Awards for Enterprise and Voluntary Service;
- The Queen's Medal for Music;
- The Queen's Gold Medal for Poetry;
- The Queen's Anniversary Prizes for Higher and Further Education.

### *Events*

- The Queen entertains 75,000 people a year at Garden Parties, investitures, receptions, dinners and lunches as a way of acknowledging people's achievements and contributions;
- Themed receptions at Buckingham Palace recognise the achievements and importance of particular sectors and to celebrate and promote aspects of British culture;
- Visits in The Queen's programme to places and projects help to acknowledge their success, importance or uniqueness.

### *Anniversary Messages*

In the course of The Queen's reign Her Majesty has sent:

- 210,000 congratulatory telegrams to centenarians on their 100th birthdays;
- 630,000 messages to couples marking their Diamond Wedding anniversaries.

In this unique way the Monarchy can mark these significant milestones in people's lives.

## **Support of Service**

The Queen endeavours to recognise and support the service given by others to the Nation, whether in the voluntary or charitable sector, in public life, in the armed forces or emergency services, and at a national level or in the community.

The Queen has a direct connection to many charities and organisations through her patronages.

The Queen's programme brings contact with all sections of society, at all levels and across the country.

In this role The Queen is greatly assisted by Other Members of the Royal Family and by the traditional political neutrality of the Monarchy.

## **THE ROYAL FAMILY**

The Queen is supported by the wider Royal Family, particularly in relation to her role as Head of Nation. Their work has become fundamental to the Nation's appreciation of the strengths and functions of the modern-day Monarchy.

Together, Members of the Royal Family complete almost 3,000 engagements a year, across the UK – many more than The Queen could undertake alone. The activities of the wider Royal Family are vital in bringing the institution of Monarchy into direct and personal contact with all sections of society, including the disadvantaged and the marginalised.

The different generations of the Royal Family help to make the work of the Monarchy relevant or accessible to people at every stage of life.

## EXPENDITURE FUNDED FROM OTHER SOURCES

### **Duchy of Lancaster**

Income from the Duchy of Lancaster forms part of The Queen's Privy Purse income. The Privy Purse is a historical term used to describe The Queen's private income and it is largely used to meet official expenditure incurred by Her Majesty and Other Members of the Royal Family which is not met by the Sovereign Grant and is taxed to the extent that the income is not used for official purposes. Accounts for the Duchy of Lancaster are presented to both Houses of Parliament annually, copies of which are available on-line at [www.duchyoflancaster.co.uk](http://www.duchyoflancaster.co.uk).

### **Duchy of Cornwall**

Income from the Duchy of Cornwall funds the private and official expenditure of The Prince of Wales and The Duchess of Cornwall. The Prince of Wales also meets the official expenditure of The Duke and Duchess of Cambridge and Prince Henry of Wales out of this income, which is taxed to the extent it is not used to meet official expenditure. Accounts for the Duchy of Cornwall are published and laid before Parliament annually, copies of which are available on-line at [www.duchyofcornwall.org](http://www.duchyofcornwall.org).

### **The Royal Collection**

The Royal Collection consists of works of art of all kinds and is held by The Queen as Sovereign in trust for Her successors and for the Nation. All costs of maintaining the Royal Collection are met by The Royal Collection Trust, a registered charity, from visitor admissions to the Occupied Palaces and related activities. The Royal Collection Trust receives no funding from the Government or the National Lottery. Around six million people saw items from the Royal Collection in royal palaces during 2013-14 and many more people saw items from the Royal Collection on loan to museums and galleries around the world. An annual report is published by The Royal Collection Trust, copies of which are available on-line at [www.royalcollection.org.uk](http://www.royalcollection.org.uk).

*Further information is available on-line at [www.royal.gov.uk](http://www.royal.gov.uk)*

# MANAGING THE ROYAL HOUSEHOLD

The role of the Royal Household is to provide exceptional support and service to The Queen, helping her to serve the Nation, and her people, in the best possible way. Continuing improvement is an important part of the Royal Household's operating approach, and it operates in a businesslike and professional manner, with a strong emphasis on value for money and accountability in the use of public funds and resources.

## HOUSEHOLD OBJECTIVES

The objectives of The Royal Household are to:

- Provide high quality advice and effective input into policy issues.
- Plan and deliver first-class Royal events.
- Communicate effectively the role and activities of the Monarchy.
- Support and advise all Royal Households.
- Maintain and make accessible the Official Residences and the Royal Collection.
- Continue to develop a diverse team of well led, trained, motivated and adaptable professionals.
- Ensure efficient use of financial resources.
- Ensure internal business processes and infrastructure provide appropriate support and continue to develop.

## SENIOR MANAGEMENT

The leadership of The Royal Household is the responsibility of the Lord Chamberlain and the five Heads of the Household's Departments, reporting to The Queen. The Lord Chamberlain, the Heads of Department and two non-executive members are collectively referred to as the Lord Chamberlain's Committee.

The Lord Chamberlain's Committee meets formally approximately eight times per annum. Its members are as follows:

- Lord Chamberlain - The Rt Hon. The Earl Peel

Heads of Departments:

- Private Secretary to The Queen - The Rt Hon. Sir Christopher Geidt
- Keeper of the Privy Purse - Sir Alan Reid
- Master of the Household - Air Marshal Sir David Walker (to 25 September 2013)  
- Vice Admiral Tony Johnstone-Burt (from 4 November 2013)
- Comptroller, Lord Chamberlain's Office - Lt Col. Sir Andrew Ford
- Director of the Royal Collection - Jonathan Marsden

Non-executive members:

- Private Secretary to The Duke of Edinburgh - Brigadier Archie Miller-Bakewell
- Principal Private Secretary to The Prince of Wales and The Duchess of Cornwall - William Nye

The Lord Chamberlain's duties are not full-time.

## REMUNERATION REPORT

The Royal Household Remuneration Committee is responsible for setting the salaries of The Rt Hon. Sir Christopher Geidt and Sir Alan Reid. The Royal Household Remuneration Committee has the following members:

- The Cabinet Secretary - Sir Jeremy Heywood
- The Permanent Secretary to HM Treasury - Sir Nicholas Macpherson
- The Lord Chamberlain - The Rt Hon. The Earl Peel
- Treasury Officer of Accounts and Secretary to the Committee - Paula Diggle

In November 2013, the Royal Household Remuneration Committee approved the removal of the Permanent Secretary bonus scheme payable applicable to Sir Christopher Geidt and Sir Alan Reid in exchange for a 5% increase in their annual salary with effect from 1 April 2013. In addition, the Remuneration Committee agreed that Sir Christopher Geidt and Sir Alan Reid would in future receive the same pay settlement as other Royal Household staff. Accordingly, it was agreed that there was no longer a requirement for a Remuneration Committee from 1 April 2014.

The salaries of The Rt Hon. The Earl Peel, Lieutenant Colonel Sir Andrew Ford and Vice Admiral Tony Johnstone-Burt are set with reference to Senior Civil Service pay scales. The salary of Air Marshal Sir David Walker was also set with reference to Senior Civil Service pay scales.

All members of the Lord Chamberlain's Committee are appointed on permanent contracts and have notice periods of between three and six months. There are no specific provisions for termination payments.

The non-executives receive no remuneration in respect of their duties as members of the Committee.

Total remuneration for members of the Lord Chamberlain's Committee who are paid from official expenditure (before the deduction of abatements and other charges in respect of housing), are shown below.

	<i><b>Start Date</b></i>	Total Remuneration		Salary		Pension Payments	
<i><b>Year to 31 March</b></i>		<b>2014</b>	2013	<b>2014</b>	2013	<b>2014</b>	2013
£'000							
The Earl Peel	Oct 06	<b>98</b>	97	<b>85</b>	84	<b>13</b>	13
Sir Christopher Geidt	Sep 02	<b>178</b>	168	<b>155</b>	146	<b>23</b>	22
Sir Alan Reid	Jul 02	<b>223</b>	212	<b>190</b>	180	<b>33</b>	32
Sir David Walker	to Sep 13	<b>66</b>	141	<b>56</b>	122	<b>10</b>	19
FTE salary : 125							
Tony Johnstone-Burt	Nov 13	<b>57</b>	—	<b>50</b>	—	<b>7</b>	—
FTE salary : 120							
Sir Andrew Ford	Oct 05	<b>136</b>	133	<b>118</b>	116	<b>18</b>	17

As part of centrally provided risk benefit cover for employees within the Defined Contribution (Stakeholder) Pension Scheme, up to 0.46% of pensionable salary is contributed for death-in-service and income replacement schemes. Three members of the Lord Chamberlain's Committee, Sir Christopher Geidt, Tony Johnstone-Burt and Sir Andrew Ford are provided with housing for the better performance of their duties and their salaries are abated in accordance with a formula agreed with Her Majesty's Treasury. There are no additional benefits in kind.

There are no accrued annual pensions as the pension payments were not made to any of the Royal Household defined benefit pension schemes.

The median remuneration of all employees (before deduction of abatements and other charges in respect of housing) is £24,345 (2012-13: £25,580) and the multiple of the remuneration of the highest paid Committee member to the median remuneration is 8.5 (2012-13: 7.8). The mean salary of all employees (salaries / FTE staff employed) for the year is £32,733 (2012-13: £32,968).

The Committee members' performance is assessed by the Lord Chamberlain through a regular appraisal process.

The above information is covered by the Comptroller and Auditor General's audit opinion.

Jonathan Marsden, Director of the Royal Collection, is not included in the above table because he is paid by Royal Collection Trust.

The Earl Peel, Sir Christopher Geidt and Sir Alan Reid are trustees of The Royal Collection Trust but do not receive any remuneration for their services.

**Sir Alan Reid**  
Keeper of the Privy Purse  
9 June 2014

# OPERATING, FINANCIAL AND STRATEGIC REVIEW

## OPERATING APPROACH

The Royal Household's objectives in managing the Sovereign Grant are as follows:

- 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.

Continuing improvement is an important part of the Royal Household's approach together with being a good employer and providing good conditions and job satisfaction, operating in a businesslike and professional manner with a strong emphasis on value for money, recruiting from across all sections of the community, and being open and accountable in the use of public funds and resources.

### **Property Maintenance**

The Property Section is the department of the Royal Household responsible for the maintenance of, and related services to, the Occupied Royal Palaces in England.

The Property Section seeks to set the highest standards in terms of quality of design and building work, efficiency and cost effectiveness. An emphasis on improvement is maintained through effective management and internal communication, setting and making clear the high standards to be achieved in each area, giving managers clear areas of responsibility and well defined performance targets, providing appropriate and well focused training, and maximising job satisfaction. A small specialist team of staff is responsible for planning and supervising the property maintenance work and for buying in services in the most appropriate and cost-effective manner, supported by a minimum number of in-house maintenance and other non-supervisory staff.

The approach of the Property Section, subject to funding constraints, is based on pre-planned preventative maintenance and conserving (and wherever possible enhancing) the architectural and historical integrity of the buildings, while 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 specialist knowledge, experience and observation of members of the Property Section;
- expert advice from a wide range of independent consultants with experience in conservation, backed up by regular consultation with English Heritage, and the use of contractors with appropriate experience;
- a programme of regular checks, tests and inspections;

- condition assessments recorded on a web based system developed by the Defence Infrastructure Organisation that assist in determining maintenance priorities and monitoring changes in the overall condition of the Occupied Royal Palaces;
- the operating requirements of the departments of the Royal Household, the other Royal Households and the other organisations which use the buildings; and
- new legislation and regulations as they affect, inter alia, construction, fire precautions and health and safety.

All projects with a construction cost of £3,500 or more are individually detailed in an Annual Works Programme showing projected and actual costs, which is updated on a monthly basis.

### **Travel**

The Sovereign Grant meets the cost of official journeys undertaken by or in support of Members of the Royal Family. Travel by The Queen, The Duke of Edinburgh, The Prince of Wales and The Duchess of Cornwall between residences is categorised as official.

Safety, security, presentation, the need to minimise disruption for others, the effective use of time, environmental impact and cost are taken into account when deciding on the most appropriate means of travel. Staff may travel with Members of the Royal Family or separately (e.g. to undertake reconnaissance visits or to arrive in advance).

The programme of overseas tours which will be funded by the Sovereign Grant is determined by the Foreign and Commonwealth Office, and approved by the Royal Visits Committee according to agreed priorities.

The Royal Visits Committee is a Cabinet Committee, chaired by the Permanent Under Secretary of the Foreign and Commonwealth Office and comprising the Private Secretaries to The Queen, The Prince of Wales and the Prime Minister, the Keeper of the Privy Purse, the Chief Executive of UKTI and the Director of Protocol, Foreign and Commonwealth Office.

### **Housekeeping and Hospitality**

The Royal Household, in addition to enabling The Queen to undertake Her Majesty's constitutional duties as Head of State, help support The Queen in fulfilling a programme of tours, garden parties, receptions and official entertaining.

## EMPLOYMENT POLICIES

The Royal Household's employment policies and practices have been developed to support the Household's objectives and associated business plans, and to encourage a motivated, adaptable and skilled workforce. As evidence of this commitment to the alignment of its people practices to support achievement of its organisational goals, and to measure its performance against an external standard, the Royal Household achieved Investors in People (IiP) re-accreditation in 2013.

The Household is committed to equality of opportunity. It aims to employ the best people from the widest available pool of talent and to ensure that all employees are able to contribute to their maximum potential irrespective of gender, race, ethnic or national origin, disability, religion, sexual orientation or age. The Household is committed to ensuring that people with disabilities are supported and encouraged to apply for employment and to achieve progress through the organisation. Diversity of both applicants and employees is promoted, with candidates sought from all sections of the community, responding to advertisements placed in national, regional and specialist media and a wide range of web sites. The majority of recruits to the Household now apply over the internet, submitting electronic applications, ensuring the broadest possible range of candidates and that selection decisions are made on standardised information. The effectiveness of the Household's Equal Opportunities Policy is monitored.

The Household actively promotes employee health and well being with the aim of fostering a culture of motivation and engagement, encouraging the retention of key staff. Initiatives include the formation of a Wellbeing Committee with staff representatives, the promotion of a variety of Sports and Social Clubs and the implementation of flexible working, as well as various health and fitness initiatives. If any employee is diagnosed with a long term medical condition which is defined as a disability, the Household endeavours to make reasonable adjustments to working arrangements to enable them to continue undertaking their role.

Staff consultation is a key element of the Royal Household's employee relations strategy, with a number of channels of communications including intranet, briefings, a staff survey, regular small focus groups and discussions and updates on the performance of the Household delivered by the Lord Chamberlain and Heads of Department. Staff are kept informed on progress made by the Royal Household and are encouraged to contribute ideas and to give feedback to senior management, with the aim of continuously improving services and standards. All staff paid out of the Sovereign Grant receive a summary copy of this report, highlights of which are published on the intranet.

All staff participate in a Performance and Development review to assess performance against objectives and a competency framework, and each employee is encouraged to commit to a personal development plan prepared jointly with his or her manager. Career opportunities are advertised internally with up to 25% of all vacancies filled in this way.

## LEARNING AND DEVELOPMENT

Considerable emphasis is placed on training, which is provided both in-house and through external organisations. The range of opportunities for learning and development extends from Institute of Leadership and Management and Chartered Management Institute qualifications for supervisors and managers, through to highly specialised courses for helicopter pilots and one to one leadership coaching. Similarly the medium and format for delivery is very diverse, with a developing e-learning facility and resource library, breakfast workshops, lunch-time learning sessions and “Learning at Work” days, as well as residential programmes. Specialist IT training focusing on enhancing IT capability is also available to all staff.

## SUSTAINABILITY AND SOCIAL RESPONSIBILITY

The Royal Household has a Sustainability and Social Responsibility Policy and is committed to considering the economic, social and environmental impact of its activities. In particular, the Royal Household aims to:

- reduce the consumption of materials and energy;
- use renewable or recycled materials;
- encourage employees to take responsibility for and participate in good environmental practices; and
- manage its activities in an environmentally sensitive manner.

The Royal Household is also supportive of employees who are involved in charitable and voluntary activities and offers special leave up to a maximum of 5 days per year for this purpose.

## SUPPLIER PAYMENT PERFORMANCE

The Royal Household aims to meet the following performance targets when paying its suppliers:

Percentage paid within:

- |                                 |    |
|---------------------------------|----|
| • 15 days of receipt of invoice | 50 |
| • 30 days of receipt of invoice | 95 |

The Royal Household’s performance against these targets can be found on page 72.

## FIRE HEALTH AND SAFETY

### **Fire Safety**

Automatic fire detection systems are installed throughout the Estate and are monitored continually to ensure they work effectively. The systems are maintained under preventative term contracts which are competitively tendered every three to five years. Systems are regularly reviewed to ensure that they remain suitable for the risk.

Automatic fire suppression systems incorporating water sprinklers, water mist systems and drenchers and fixed installations using foam or inert gas are installed in kitchens and other high risk areas to augment the provision of structural fire compartmentation, including fire curtains.

Fire risk assessments and inspections are undertaken on a regular basis, initially using independent consultants, with follow-up inspections by in-house fire safety officers in accordance with the Fire Regulatory Reform Order. In addition, each department has a nominated fire marshal.

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

### **Health and Safety**

The Royal Household is fully committed to good proactive management of health and safety and is aware of its responsibilities to employees, visitors, residents and contractors. This includes following best practice in all aspects of health and safety as well as legal compliance, to create a good working environment and reduce accidents and cases of work-related ill health. Health and safety culture is under continual review and supplemented by regular safety initiatives.

Responsibility for health and safety rests with managers and employees, supported by a central Health and Safety team. The Health and Safety team provides advice and guidance to managers and employees, helping to bring continual improvement to work activities and the workplace. Safety training is provided where needed including a general health and safety awareness course provided to all staff within the organisation.

Regular reviews are made of health and safety risks across the organisation and changes made to processes where appropriate. The Health and Safety policy documentation, aligned to ISO 18001, is regularly reviewed with updates and changes brought to the attention of managers and employees as necessary. Proactive consultation is undertaken with employees and via regular Health and Safety Committee Meetings. In addition, an annual report is provided to the Lord Chamberlain's Committee. Communicating a positive approach to health and safety remains the focus of attention.

## OVERVIEW OF THE YEAR

The year ended 31 March 2014 was again busy with The Queen's programme incorporating a number of events celebrating the 60th anniversary of the Coronation.

## PUBLIC ENGAGEMENTS

During the year to 31 March 2014, The Queen undertook 309 public engagements in the United Kingdom whilst The Duke of Edinburgh undertook 202 official engagements. Although The Queen did not undertake any overseas engagements in 2013-14, Her Majesty was supported by Members of the Royal Family who undertook 18 overseas engagements. Highlights of Her Majesty's schedule included:

- In April, The Queen and The Duke of Edinburgh were present at the funeral of the Baroness Thatcher, LG, OM which was held in St Paul's Cathedral.
- In May, The Queen, accompanied by The Duke of Edinburgh, travelled in State to the Palace of Westminster to open the Session of Parliament.
- Also in May, The Queen, Patron, Royal Horticultural Society, and The Duke of Edinburgh visited the Chelsea Flower Show in the Gardens of the Royal Hospital, Chelsea.
- In June, The Queen opened the new British Broadcasting Corporation Broadcasting House, Portland Place, London W1.
- Also in June, The Queen and The Duke of Edinburgh attended a Service to celebrate the Sixtieth Anniversary of Her Majesty's Coronation in Westminster Abbey.
- In July, The Queen, accompanied by The Prince of Wales and The Duchess of Cornwall, The Earl and Countess of Wessex, The Princess Royal and other Members of the Royal Family, attended a preview of the Coronation Festival in the garden of Buckingham Palace. Her Majesty, accompanied by other Members of the Royal Family, gave a Reception at Buckingham Palace before attending the Coronation Festival Gala in the garden.
- In October, The Queen officially opened The Queen Elizabeth Theatre, the International School of Aberdeen.
- Also in October, The Queen, accompanied by The Duke of Edinburgh, launched the Commonwealth Games Queen's Baton Relay from the Forecourt at Buckingham Palace.
- Also in October The Queen, accompanied by The Duchess of Cornwall, President, Ebony Horse Club, visited Ebony Horse Club Community Riding Centre.
- In November, The President of the Republic of Korea undertook a State Visit to the United Kingdom. The President was met by The Queen and The Duke of Edinburgh who later gave a State Banquet in his honour.
- In February, The Queen and The Duke of Edinburgh were entertained to Luncheon at Chequers, Buckinghamshire.
- In March, The Queen, Patron, accompanied by The Duke of Edinburgh, visited Reed's School, Sandy Lane, Cobham, to commemorate its Bicentenary.

## STAFF

During the year, the average number of staff paid from the Sovereign Grant was 431 (2012-13: 436). The decrease is due to additional staff being appointed on short term contracts for the Jubilee year and a higher number of vacancies in the current year.

The total number of FTE staff employed by the Royal Household before recharges and secondments to related parties amounted to 497 (2012-13: 500). Of these staff, 282 were male and 215 were female. Employees at a level equivalent to Senior Civil Service grades, including members of the Lord Chamberlain's Committee comprised 14 males and 2 females.

The total costs of Royal Household employees paid from the Sovereign Grant were £18.2 million (2012-13: £18.3 million) a decrease of 2.1% in real terms.

The average number of days of employee absence due to sickness in 2013-14 was 5.7 days (2012-13: 6.0 days) compared with a national average of 7.6 days for 2013.

## PROPERTY MAINTENANCE

Expenditure on Property Maintenance increased by £4.2 million in 2013-14, an increase of 45% in real terms.

The update of the Condition Assessment survey of the Occupied Royal Palaces Estate confirmed that 40% of the Estate was below target condition at 31 December 2013 (31 March 2012: 39%). The Royal Household aims to use a significant proportion of the increase in Sovereign Grant funding, supplemented by growth in income from property rental, event and facility management charges, to maintain the Annual Works Programme at a level which will contribute to reducing the backlog in essential maintenance. Changes in the condition of the Estate will continue to be monitored through the biennial condition assessment surveys.

### **Major Projects in the Year**

In 2013-14 a total of 133 (2012-13: 113) projects over £3,500 in value were carried out across the Estate. Three of these projects had a construction works spend in excess of £250,000 in the year and individually accounted for 58% of the total project spend across the whole Estate (2012-13: six and 50%) details of which are set out below.

The removal of asbestos is a precursor to certain projects undertaken across the Estate. However, due to the difficulty in budgeting for this work and comparing outcomes of projects, expenditure on asbestos removal is consolidated and separately reported. In addition to the work on the Basement Floor Ducts project detailed below, a further £0.5 million (2012-13 £0.7 million) was spent on the removal of asbestos by specialist contractors from locations across the Estate.

### **Removal of Asbestos in the Basement Floor Ducts, North and East Wings of Buckingham Palace (£0.8 million)**

The mechanical and electrical services at Buckingham Palace were largely installed in 1949 and are in need of replacement. The mains are distributed around the Palace from central plant rooms in ducts that run under the basement floor of three of the four wings, each of which has been treated as a separate phase. Works commenced in the South and West wings and moved onto the North and East wings in 2013-14. Each phase of the project includes the clearance of asbestos contamination; the removal of redundant mains cabling and the replacement of duct covers which will provide easier access for the future replacement of cables serving main fuse boards.

### **Renewal of Lead Roofing, Royal Library, Windsor Castle (£0.9 million)**

During 2013, the next phase of external repair in the Upper Ward was carried out over the Royal Library. The project involved the renewal of aging lead roofs that had been patched in 1997 to extend their life. To gain access, a scaffold and temporary roof was erected spanning from Engine Court to the North Terrace. Existing lead sheet was removed, timber repairs were carried out and new boarding was laid to create appropriate bay sizes for new lead sheets. Parapet gutters were renewed and exposed structural iron beams that lie above the roof were repaired. The scaffold was also used to undertake masonry repairs, replacing numerous loose areas of cementitious render that had been used to face up eroded Bath stone.

### **Internal Refurbishment of Apartment 1A, Kensington Palace (£3.4 million)**

The Official Residence of The Duke and Duchess of Cambridge lies within a part of Kensington Palace designed by Sir Christopher Wren, to form a grand route to the King's Staircase from the Porte Cochere that is now the entrance to Apartment 1. Last refurbished more than 50 years ago, in 1962-63, to create the Official Residence for Princess Margaret and Lord Snowdon, the building was occupied by Historic Royal Palaces as offices from 2002 until the autumn of 2012. In 2013, work commenced on the refurbishment of the building for permanent and long-term occupation by The Duke and Duchess of Cambridge. Kensington Palace is a Scheduled Ancient Monument and therefore every element of the refurbishment had to be agreed with English Heritage. From January 2013, extensive asbestos contamination was removed, allowing refurbishment to start in April 2013. The apartment was uninhabitable as a residence at this time and was in a state of some disrepair. It has since been completely re-serviced, with new heating, hot and cold water services, electrical services and simple redecoration. Work was largely completed within a period of six months. The cost of internal refurbishment does not include all carpets, curtains and furnishings, which are paid for privately.

## General Maintenance

General maintenance costs comprise preventative/planned and reactive work. Preventative or planned maintenance includes small areas of redecoration and other repair work costing less than £3,500, regular inspections of lifts, boilers and other equipment and plant, work arising from in-house inspections, and 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, and so on. Expenditure on general maintenance before VAT recoveries was £3.4 million in 2013-14 (2012-13: £3.1 million).

## TRAVEL

Almost 3,000 official engagements were undertaken across the United Kingdom and overseas by Members of the Royal Family during the year to 31 March 2014. These involved a significant amount of travel that needed to be undertaken in a way which met efficiency, security and presentational requirements and minimised disruption to the public. A list of the 47 (2012-13: 91) journeys undertaken by Members of the Royal Family and their staff during 2013-14 which had travel costs of £10,000 or more, met from the Sovereign Grant, is available on the Monarchy website at [www.royal.gov.uk](http://www.royal.gov.uk). The principal visits during the year were undertaken by:

- The Prince of Wales and The Duchess of Cornwall – visit to India and the Commonwealth Heads of Government Meeting in Sri Lanka (£434,000).
- The Prince of Wales – visit to South Africa to attend the State Funeral of Nelson Mandela (£255,000).
- The Prince of Wales – visit to Saudi Arabia, Qatar, Abu Dhabi and Bahrain (£245,000).

The travel costs for the above tours also include the costs associated with staff undertaking visits in advance in order to plan the tour programmes.

## SUSTAINABILITY

Considerable emphasis is placed on the environmental impact of activities and energy conservation, both to save costs and to reduce environmental pollution.

The Royal Household's main sustainability impacts are as a result of:

- travel (particularly overseas travel on behalf of the Government);
- heating and lighting residences; and
- the waterworks at Windsor.

Initiatives implemented by the Royal Household to ensure that it manages those areas under its control in an environmentally sensitive way include:

- the introduction of Procurement Guidance and training for staff to ensure that social and environmental criteria are taken into account when purchasing decisions are made;
- the creation of a network of staff known as the "Green Champions" to help increase awareness of environmental practices in the workplace and to assist with the implementation of initiatives;
- a reduce-reuse-recycle section on the intranet giving ideas on what can be done both in the work place and at home; and
- the appointment of an Energy and Sustainability Manager from August 2014.

### Carbon Emissions

<b>Tonnes CO<sup>2</sup></b>	<b>2014</b>	<b>2013</b>
Official Travel	<b>2,826</b>	2,459
Electricity <sup>1</sup>	<b>2,492</b>	2,407
Gas	<b>4,231</b>	4,466
	<b>9,549</b>	<b>9,332</b>
Overall % change	<b>2%</b>	–

<sup>1</sup> The conversion factors for electricity CO<sup>2</sup> emissions changed from 0.5214 per Kg CO<sub>2</sub>e to 0.44548 per Kg CO<sub>2</sub>e in July 2013. The prior year numbers have been restated to ensure comparability.

## **Official Travel**

The environmental impact of official travel is influenced by the scale of overseas travel mixed with domestic journeys. Although the overseas tours are determined by the Foreign and Commonwealth Office, the Royal Household aims to minimise this impact without compromising the ability of The Queen and Members of the Royal Family to fulfil their official duties.

## **Electricity**

In 2013-14 approximately 8.1 million kWh (2012-13: 8.0 million kWh) were consumed on the Estate, an increase of 0.1%. The combined heat and power units (CHP) located at Buckingham Palace and Windsor Castle produced 2.5 million kWh of this consumption (2012-13: 2.6 million kWh) and the new hydro-electric scheme at Romney Lock, Windsor which commenced generation in April 2013 provided 0.8 million kWh of this consumption.

## **Gas**

In 2013-14 approximately 23.1 million kWh (2012-13: 24.4 million kWh) were consumed on the Estate, a decrease of 5%. The Combined Heat and Power units in both London and Windsor provide hot water during the summer allowing the main boilers to be switched off and thereby reducing gas consumption.

## **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. In 2013-14 approximately 0.1 million cubic metres were used across the estate (2012-13: 0.1 million cubic metres).

## **Waste**

In 2013-14 approximately 1,727 tonnes (2012-13: 1,675 tonnes) of waste were generated across the Estate, an increase of 3%.

## INCOME GENERATION

Income supplementing the Sovereign Grant amounted to £13.4 million (2012-13: £11.6 million) an increase of 16%. Property rental income increased by £0.2 million due to income from the Coronation Festival at Buckingham Palace. Facilities management charges increased by £0.7 million largely due to inflationary increases and an increase in visitors to Windsor Castle. Recharges and other income increased by £0.9 million due to higher project expenditure on behalf of The Royal Collection Trust.

## INFORMATION SECURITY AND MANAGEMENT

Work on compliance with ISO 27001 and the Government's Information Assurance Maturity Model was completed in 2012-13. The focus is now on maintaining these Standards and embedding their logic as a natural part of the work of the Royal Household.

The Royal Household continues to provide Information Assurance awareness training to all employees.

The Royal Household has not suffered a loss of protected personal data during 2013-14 (2012-13: nil) and consequently has had no need to report such an incident to the Information Commissioner's Office.

## FUTURE DEVELOPMENTS

### **Staff**

In April 2013 the Royal Household assumed responsibility for the cost of four Access Control Officers at St James's Palace and Kensington Palace, who were previously funded by the Home Office. A further review of access control arrangements at Buckingham Palace in 2013 is expected to result in the Royal Household also taking responsibility for the access control arrangements at the Royal Mews, Buckingham Palace from the Home Office with effect from 1 April 2015.

In order to make further progress in reducing the environmental impact of the Royal Household's activities an Energy and Sustainability Manager was appointed from August 2014.

A re-organisation of the Property Section in 2013-14 will be fully implemented in 2014-15 with the appointment of a Head of Projects from May 2014 and additional project management resources to support the delivery of an increased number of projects across the Estate.

## **Human Resources**

The strategy for 2014 includes a focus on continuous improvement with consideration of best practice, internal and external benchmarking, feedback gained through the Investors in People reassessment and a staff engagement survey. The focus on utilising technology to streamline and improve Human Resources (HR) services will continue. The e-learning programmes have initially focused on compliance training, but will be extended during 2014, and the implementation of the web-enabled annual performance review process will be completed. Further enhancements will also be made to the online recruitment system and the use of social media evaluated to ensure the continued attraction of a talented and diverse pool of applicants. Additionally, decision making in the selection process will be assisted by the wider usage of psychometric tests introduced initially in 2013. These have been used as part of the assessment process and in tandem with competency based interviewing.

Reward and recognition remains a key element of the Household's HR strategy with a remuneration policy that commits to pay at market median and offers London and Regional Living wage as a minimum to staff, who are not benefitting from a subsistence package that includes housing. In 2014, Remuneration Statements clarifying the value of their benefits package will be issued to all employees and further benchmarking salary surveys will be undertaken along with an Equal Pay Audit.

To further improve efficiency, a project is proposed to transfer recruitment administration to an electronic system, and a new module to manage rostering will be implemented on the HR/Payroll database.

Leadership and management development remains a key element of the HR plan. A specific objective for 2014 will be the development of an induction programme for managers, along with intranet pages providing guidance on key aspects of their role, and an in-house accredited leadership coaching programme for the senior team.

## **Property Maintenance**

The Annual Works Programme of the Property Section includes a number of major projects which aim to meet the objectives set out in the Sovereign Grant Framework Agreement with HM Treasury. The increase in the Sovereign Grant in 2014-15 will enable the Annual Works Programme to be maintained at a similar level to 2013-14 in order to address the backlog in essential maintenance and will include the following projects:

### *Replacement of Services at Buckingham Palace*

Work has continued in 2013-14 to remove asbestos from the ducts under the floor of the basement, completion of which will be achieved in 2014-15. Thereafter, it is planned to continue replacing the mains electrical cables from the switch room and installing new mains panels in the basement. There will also be further investigation into the possibility of an alternative source of supply to improve resilience in terms of business continuity.

### *External Fabric Repairs*

The long-term programme of external fabric repairs at Buckingham Palace and Windsor is extensive and is therefore dependent on the available funding. It is however intended to manage a limited programme of repairs in 2014-15, including the renewal of roofing in the Upper Ward Windsor Castle and slate and lead roofing in the Royal Mews at Buckingham Palace.

Subject to satisfactory progress in the replacement of services and the above projects it is hoped that further progress might be made on the repair of the Victoria and Albert Mausoleum. The work required includes renewal of the copper roofs, installation of permanent improvements to the gutters and downpipes, drainage improvements, paving repairs and internal repair, including the decorative painted surfaces, so that the building may be removed from the English Heritage 'Buildings at Risk' Register.

### *Renewal of Water Mains, Windsor*

Some ten years ago, the Royal Mews at Windsor was connected to water supplies from Thames Water, but the remainder of the estate is still provided with water from a private treatment plant. The renewal of water mains throughout the Home Park will be the first phase of a project to enable the whole estate to be connected to Thames Water mains.

### **Official Travel**

Following the re-location of The Queen's Helicopter Flight (TQHF) from Blackbushe Airport to RAF Odiham in 2012-13, plans have been developed for the establishment of permanent hangarage facilities. Due to be completed in 2015, these facilities will provide a secure maintenance and operating base for The Queen's Helicopter Flight.

To enhance the safety and security of travel a contract for charter helicopter hours has been negotiated with AgustaWestland with the helicopter operated by The Queen's Helicopter Flight. The contract is renewable annually and is expected to result in an equivalent reduction in small fixed wing charter hours.

### **Sustainability**

The appointment of an Energy and Sustainability Manager will enable greater focus on energy saving initiatives through improved monitoring of patterns of consumption and input to the specifications for replacement plant as part of the re-servicing of Buckingham Palace and Windsor Castle.

### **Income Generation**

Every opportunity is taken to supplement the Sovereign Grant through growth in the number of properties available for commercial letting and reducing the number of vacant properties within the security cordon. The key consideration is that the initial investment in refurbishment has a reasonable payback. The Royal Household has a forward looking plan that explores the scope to free up properties for commercial letting and identifies properties on the Estate which do not contribute to the Household's operations.

Income generated from the use of Perks Field, Kensington Palace amounted to £0.4 million in 2013-14 (2012-13: £0.4 million) and it is anticipated that income will continue to be generated from the commercial letting of Perks Field, Kensington Palace, for up to 60 days in 2014-15.

### **Going Concern**

After making enquiries, the Lord Chamberlain's Committee have a reasonable expectation that the Sovereign Grant will provide adequate resources to enable The Queen to continue to undertake Her Official Duties for the foreseeable future.

### **Events since 31 March 2014**

There were no significant events affecting the Sovereign Grant that have occurred since the end of the financial year.

**Sir Alan Reid**

Keeper of the Privy Purse

9 June 2014

# GOVERNANCE STATEMENT

## Scope of Responsibilities

As Accounting Officer, I have responsibility for maintaining a sound system of governance that supports the achievement of the policies, aims and objectives of the Royal Household in areas funded by the Sovereign Grant, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The role and responsibilities of the Accounting Officer are defined in the Framework Agreement relating to the Sovereign Grant<sup>1</sup>.

The UK Corporate Governance Code issued by the Financial Reporting Council is widely acknowledged as representing best practice in governance. Although The Royal Household is not obliged to comply with the requirements of the Code, The Lord Chamberlain's Committee nevertheless supports the principles and provisions set out in the Code; and in so far as the Code provisions are applicable to the circumstances of the organisation, The Royal Household complies with the Code where appropriate. Many areas of our governance, however, are governed by The Sovereign Grant Act 2011, HM Treasury guidance or other government guidance.

## Governance framework

### *Lord Chamberlain's Committee*

Strategic leadership of the Royal Household comes from the Lord Chamberlain's Committee (see page 7). The Lord Chamberlain's Committee assesses risks and opportunities as part of the review of annual budgets and in the preparation of longer term operating plans with reference to the Household objectives and mitigates risks as far as possible.

The Lord Chamberlain's Committee sets its agenda with reference to the Royal Household objectives and risk register.

The four department heads are responsible for ensuring that department business plans are aligned with the Household's objectives (see page 7).

The consolidation of the Civil List and the Grants-in-aid for the Maintenance of the Occupied Royal Palaces, Communications and Information and Royal Travel into the Sovereign Grant has greatly increased the Royal Household's flexibility in managing its financial affairs which should lead to improved prioritisation and greater efficiency.

The Sovereign Grant management accounts are considered at each meeting. The robust processes underlying the production of the management accounts provide the Lord Chamberlain's Committee with assurance as to the reliability of the financial position in order to inform decisions which may result in variations to the annual operating plan.

<sup>1</sup> A copy of the Sovereign Grant Framework Agreement with HM Treasury is available on-line at [www.royal.gov.uk](http://www.royal.gov.uk)

Certain responsibilities are delegated to subsidiary boards and committees with the following remits;

- Sovereign Grant Planning Board – The Sovereign Grant Planning Board met four times during 2013-14 to undertake a cross department review of the Budget and Three Year Plan (2014-17) priorities, monitor Sovereign Grant expenditure and to provide a forum for cross-departmental communication.
- Security Risk Management Board – The Royal Household Security Risk Management Board met twice during 2013-14 to consider reports from the Information, Personnel and Physical Security Working Groups.
- Aviation Safety Review Board – The Royal Household Aviation Safety Review Board met twice in 2013-14 to consider risks assessed by the Aviation Safety Management Committee and equipment safety enhancements and more recently the risks associated with the use of chartered helicopters.

This 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.

#### *Audit Committee*

The Audit Committee for the Sovereign Grant is a sub-committee of the Lord Chamberlain's Committee. It is responsible for assessing the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks and is supported in this role by the internal audit function. The Chair of the Audit Committee reports annually to the Lord Chamberlain's Committee on the Audit Committee's activities and responsibilities. In undertaking its responsibilities, the Audit Committee considers reports from both internal and external auditors and management, and makes recommendations to the Lord Chamberlain's Committee throughout the year.

Meetings of the Audit Committee are attended by the Head of Audit Services, the Keeper of the Privy Purse, the Deputy Treasurer to The Queen, a representative from HM Treasury and representatives from the National Audit Office on behalf of the Comptroller and Auditor General who is the external auditor of the Sovereign Grant. Other senior managers in the Royal Household attend when invited by the Committee.

The Audit Committee annually reviews its terms of reference and undertakes a formal evaluation of its own performance every three years. The results of the most recent evaluation were considered in June 2013.

Matters dealt with by the Committee include:

- reviewing and challenging the actions and judgement of management in relation to the annual accounts;
- ensuring procedures are in place for assessing and managing fraud, theft and bribery;
- review of reports from internal and external auditors, and management;
- review of Public Accounts Committee reports;
- review of the Governance Statement and the effectiveness of the system of internal control;
- review of effectiveness of internal and external audit and agreement of audit plans;
- monitoring management's responsiveness to internal audit findings and recommendations;
- reviewing the Royal Household's risk management and assurance processes; and
- reviewing specific areas to assess and monitor progress in developing and enhancing internal control (e.g. property maintenance, archiving and business continuity)

The membership of the Lord Chamberlain's Committee and the Audit Committee is set out below with the attendance record for the year. Members of the respective committees have a broad range of experiences relevant to the Royal Household's activities:

<b>Lord Chamberlain's Committee</b>	<b>Meetings attended</b>	<b>Audit Committee</b>	<b>Meetings attended</b>
The Rt Hon. The Earl Peel (Chair)	8/8	Sir David Tweedie (Chair)	3/3
The Rt Hon. Sir Christopher Geidt	6/8	Mr John Coombe	3/3
Sir Alan Reid	8/8	Ms Leslie Ferrar	3/3
Vice Admiral Tony Johnstone-Burt	4/4		
Air Marshal Sir David Walker	3/3		
Lt Col. Sir Andrew Ford	8/8		
Mr Jonathan Marsden	8/8		
Brigadier Archie Miller-Bakewell	8/8		
Mr William Nye	6/8		

Members of the Audit Committee receive no remuneration in respect of their duties.

Specialist risk managers in the Royal Household include the Fire Safety Managers in Windsor and London, the Health and Safety Manager, the Head of Royal Travel, Director of Security Liaison and Head of Information Assurance. These specialists provide advice on the management of the risks falling within their areas of responsibility and provide annual reports to the Lord Chamberlain's Committee.

## **The Purpose of the System of Governance**

The governance framework comprises the systems and processes, culture and standards by which the activities of the Royal Household are directed and controlled. It enables the Royal Household to monitor the achievement of its strategic objectives and consider whether they have been achieved in a cost effective manner.

Risk management is designed to manage performance and control risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of Royal Household policies, aims and objectives;
- evaluate the likelihood of those risks being realised;
- assess the impact should they be realised;
- manage those risks efficiently, effectively and economically.

The governance framework has been in place for the period covered by this report and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

## **Monitoring the effectiveness of Governance**

As Accounting Officer, I have responsibility for ensuring the effectiveness of the governance framework. My review of effectiveness is supported by the work of the internal auditors and the senior managers within the Royal Household who have responsibility for the development and maintenance of the governance framework, the Head of Audit Services' annual report and comments made by the external auditors and other qualified professionals in their management letters and reports. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes the following:

- There is a Royal Household strategic risk register which has been developed with reference to the Royal Household's objectives and is underpinned by integrated departmental risk registers. These are reviewed by the Lord Chamberlain's Committee and departmental management teams on a regular basis.
- The Audit Committee regularly requires Heads of Department and senior managers to present an outline of the activities in their area of responsibility to ensure that key risks are appropriately identified and being managed.
- The internal audit function takes a risk-based approach to audits and operates to a plan of work agreed by the Audit Committee that is aligned to the risk registers and Royal Household objectives. The findings of reviews are reported to the Audit Committee.
- The Audit Committee monitors management's progress with the implementation of agreed internal audit recommendations ensuring that management establish appropriate priorities.

- Assurance on specialist areas such as Royal travel are provided by suitably qualified, external professionals and regulatory bodies.
- Ongoing budgetary control is monitored by the production of regular and timely financial management reports.
- The Royal Household's management of the Sovereign Grant is facilitated through two monthly meetings with HM Treasury.
- The Lord Chamberlain's Committee and the Audit Committee have examined the assurance received from the work of internal audit, reports received by the respective committees and other sources in order to provide additional confirmation that risk is being properly managed throughout the Royal Household.

### **Governance Activities during the year**

A programme of internal audit work for the twelve month period beginning 1st April 2013 was agreed by the Audit Committee at its meeting held on 4th March 2013. Based on the work undertaken, the Head of Audit Services has reported in his annual report that the overall adequacy and effectiveness of the Royal Household's framework of governance, risk management and control is considered effective.

Some of the improvements and initiatives that have been made during the year include:

#### *Public Accounts Committee*

The recommendations of the Public Accounts Committee (PAC) hearing on 14 October 2013 were published on 28 January 2014. The responses to the report and the actions being taken by the Royal Household are summarised as follows:

***PAC - The Household should ensure that it employs effective longer term financial management and planning processes for managing the Grant, and that potential efficiencies in Grant expenditure are identified. In their 2015-16 review of the funding mechanism, the Royal Trustees should also have regard to the need to drive efficiencies in the Household's support to the Monarch.***

The preparation of a three year plan and monthly management accounts which are reviewed by the Sovereign Grant Planning Board and the Lord Chamberlain's Committee facilitates the planning and tracking of expenditure financed by the Sovereign Grant. This regular monitoring of performance has led to real efficiency savings of 10% over the 5 years to 2012-13 through reductions in staff costs, travel and hospitality, bringing the total real reduction in costs to 50% over the past 20 years. The results for 2013-14 demonstrate that this performance monitoring has continued with further efficiency savings achieved through reductions in staff costs (2.1% in real terms) and travel (7.1% in real terms) thereby enabling a £4.2 million (47%) increase in the funds allocated to property maintenance.

***PAC - The Household should ensure it has sufficient commercial expertise in place, both to maximise opportunities for generating income and to reduce costs, with a view to supporting The Queen's programme at lower net cost, providing better value.***

The Royal Household's three year plan sets out how it will support The Queen in the performance of Her Official Duties, and within that context how it may supplement the Sovereign Grant through income generation. Over the 5 years to 2012-13 the Royal Household achieved a 73% increase in income from £6.7m to £11.6m and in 2013-14 achieved a further £1.8m (16%) increase in income. The Royal Household will continue to look for further opportunities to improve its income consistent with the need to maintain The Queen's official programme of engagements at the Occupied Royal Palaces.

***PAC - The Household should make swift progress on updating its property maintenance plan, including an estimate of the cost of repairs needed to bring the estate back to target condition, and clear prioritisation of the work required.***

The Royal Household completed its two yearly update of the property condition assessment survey in December 2013. The results of the survey have been evaluated and a 10 year property maintenance plan is being prepared and will be discussed with HM Treasury in 2014-15. Subject to the Royal Trustees' agreement of the funding available from 2016-17, the Royal Household will be able to set priorities for property maintenance and establish how quickly it can achieve target condition for the Estate through a variety of projects, some of them lasting several years.

***PAC - The Household should rebuild a sufficient level of contingency in its Reserve Fund to cover unforeseen demands on The Queen's programme.***

The Royal Household, in agreement with HM Treasury plans that the Reserve will rise toward a target of 5% of the annual Sovereign Grant by 2015-16. The Sovereign Grant Reserve is £1.4 million (3.9% of the Sovereign Grant) at 31 March 2014.

#### *Property Maintenance*

In conjunction with the increase in funding available for property maintenance, the Royal Household has taken the opportunity to look at the adequacy of the Property Services operating structure and the resources required to deliver a larger Annual Works Programme (The Annual Works Programme increased from £6.3 million in 2012-13 to £10.2 million in 2013-14). This has resulted in the establishment of a separate Projects Section under a new 'Head of Projects', who with the Heads of Property Operations in London and Windsor will report to the Director of Property Services. It is anticipated that the new structure will help to improve accountabilities for compliance with statutory obligations, enable the delivery of larger more complex projects as well as continue to deliver value for money.

### *Royal Travel by Helicopter*

#### Hangarage

The Queen's Helicopter is a key resource in the delivery of the annual programme of visits by Members of the Royal Family throughout the UK. Due to concerns as to the adequacy of maintenance arrangements and following an evaluation of appropriately qualified engineering facilities, a decision was taken to re-locate the Royal Household's helicopter operation from Blackbushe to RAF Odiham in March 2013. The establishment of appropriate hangarage and engineering facilities in order to maintain the highest safety standards has progressed during the year and the construction project is now out to tender. Completion is expected in 2015.

#### Charter Helicopters

Concerns as to the use of charter helicopters to supplement The Queen's Helicopter for official engagements undertaken by Members of the Royal Family have increased in light of further fatal helicopter accidents during the year. The Royal Household's Aviation Safety Review Board has continued to review the risks associated with the use of charter helicopters and has recommended measures to mitigate risk which include all charters being piloted by crew from The Queen's Helicopter Flight. In conjunction with this change in policy and a shortage of suitable charter aircraft, the Royal Household has also entered into an annually renewable lease with AgustaWestland for a minimum of 150 charter hours. These two developments should further enhance the Royal Household's air safety management.

### *Access Control, The Royal Mews, Buckingham Palace*

Following a review of security arrangements across the Royal estate, the security of the Royal Mews, Buckingham Palace was deemed to be outside the remit of SO14 Royalty Protection (Metropolitan Police Service). Accordingly funding by the Home Office is to be formally discontinued in 2014-15. In response, the Royal Household established a working group to consider various options for the provision of security and concluded that a model where access control and fire surveillance duties are combined would be a cost effective alternative to maintaining the existing format.

A full assessment of the risks associated with the proposed change and the physical measures was completed in 2013. This includes what will need to be introduced on implementation of the new arrangements. It is anticipated the new model will be operational by April 2015.

## *IT Systems*

### Windows 7/ Office 2010

The Royal Household's Information Systems Management (ISM) section supports 1,740 IT users, including 985 users who are funded outside of the Sovereign Grant. One of the most far reaching projects to be undertaken by the ISM section in recent years has been the upgrade of the Royal Household's IT systems to Windows 7 and Microsoft Office 2010. In addition to the number of people affected by the project, the project plan identified the need for upgrades to other core systems including Finance, BACS payments, Food Management and Remote Access. The Finance and BACS payments systems were upgraded in 2012-13 in anticipation of the Windows 7 and Microsoft Office 2010 upgrade being implemented throughout 2013-14. A Project Board monitored the implementation to ensure that the project met the target completion date of April 2014 when Microsoft withdrew support for older versions of these products. As at 31 March 2014 in excess of 95% of users had been upgraded with the remainder due to be completed in the first quarter of 2014-15.

### Remote Access

The 2013 ISM Annual Report to the Lord Chamberlain's Committee highlighted the difficulties faced in achieving security compliance with the Royal Household's connection to the Public Services Network, specifically in relation to the Household's Remote Access solution which enables staff to work from their home PC's or wi-fi enabled laptops. Access to the Public Services Network is required by staff who are required to exchange RESTRICTED e-mails with Government departments. It was recognised that the ability to work remotely is an integral part of the Household's business continuity arrangements and offers considerable flexibility when staff are out of the office on engagements either in the UK or overseas. The Lord Chamberlain's Committee considered the risks, costs and benefits of several remote working solutions and agreed that, in the short term, a pool of Trusted Laptops would be established to enable remote working to continue whilst other options are considered for the longer term.

### *Coronation Festival*

On 11 to 14 July 2013, the Royal Warrant Holders Association, with the assistance the Royal Household and an event management company, staged the Coronation Festival in the Gardens of Buckingham Palace. The Festival set out to celebrate 60 years of achievement in terms of innovation, industry and excellence through craft and trade as demonstrated through the 200 companies with Royal Warrants who exhibited at the Festival. During the Festival there were 36,000 visitors who attended during the day and a further 18,000 visitors attended the evening Gala concerts. The infrastructure for the Festival was the largest for any event held at the Palace and as a result required meticulous planning and risk management by a Steering Group comprising the Royal Household, the Royal Warrant Holders and the event management company over a period of two years. Detailed planning ensured that the Festival could be staged without impact on the annual Garden Parties and the preparations for the opening of Buckingham Palace to visitors at the end of July.

Preparations also included a desk top planning exercise of the Royal Household's business continuity arrangements in the event of disruption during the Festival or the set-up period.

### **Summary**

The year under review has been another challenging period for all staff within the Royal Household with the continuing demands of The Queen's Annual Programme and the programmes of other Members of the Royal Family who support The Queen. The review as detailed above provides assurance as to the effectiveness of the Royal Household's governance structure and I am satisfied that there have been no governance issues identified during the year that are considered significant in relation to the Royal Household's governance framework. The Lord Chamberlain's Committee and I are therefore satisfied that any opportunities for improvement in governance identified as a consequence of the assurance processes detailed above have been addressed or will be actioned to ensure that the Household continues to maintain the highest standards and makes effective use of its resources in achieving its objectives, whilst managing risks in an appropriate manner.

**Sir Alan Reid**

Keeper of the Privy Purse

9 June 2014

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

The Keeper of the Privy Purse is responsible for ensuring that:

- the administration of the Sovereign Grant fully accords with the accounts direction given by HM Treasury in accordance with the Framework Agreement between the Royal Household and HM Treasury; and
- the Sovereign Grant is applied only for the purposes set out in the Framework Agreement between the Royal Household and HM Treasury; and
- the administration of the Sovereign Grant fully accords with *Managing Public Money* and other guidance that may be notified to the Royal Household by HM Treasury.

The Keeper of the Privy Purse is required to submit this annual report to the Lord Chamberlain and the Treasury Officer of Accounts and is responsible for ensuring that the Sovereign Grant financial statements are prepared on an accruals basis and give a true and fair view of the state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

The Keeper of the Privy Purse is responsible for ensuring that:

- the Royal Household maintains the books and records which are proper and necessary to enable it to discharge its responsibility, as set out in the Framework Agreement, for income and expenditure;
- the Sovereign Grant is used economically, efficiently and effectively to secure good value for money, in accordance with propriety and regularity;
- staff paid from the Sovereign Grant take financial considerations fully into account at all stages in framing, reaching and executing decisions in so far as the Sovereign Grant 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 Sovereign Grant funds and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

The Keeper of the Privy Purse, who held office at the date of approval of this report, confirms that, so far as he is aware, there is no relevant audit information of which the Sovereign Grant auditors are unaware; and he has taken all the steps that he ought to have taken as Keeper of the Privy Purse to make himself aware of any relevant audit information and to establish that the Sovereign Grant auditors are aware of that information.

**Sir Alan Reid**

Keeper of the Privy Purse  
9 June 2014

# THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT AND THE ROYAL TRUSTEES

I certify that I have audited the financial statements of the Royal Household in respect of the Sovereign Grant for the year ended 31 March 2014 under the Sovereign Grant Act 2011. The financial statements comprise the Statements of: Income and Expenditure, Comprehensive Income and Expenditure, Financial Position, Cash Flows, Changes in Reserves; the Sovereign Grant Reserve; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## **Respective responsibilities of the Keeper of the Privy Purse and auditor**

As explained more fully in the Statement of the Keeper of the Privy Purse's Financial Responsibilities, the Keeper of the Privy Purse is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Sovereign Grant Act 2011. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

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

### **Opinion on regularity**

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

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Royal Household's affairs in respect of the Sovereign Grant as at 31 March 2014 and of the total net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Sovereign Grant Act 2011 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Sovereign Grant Act 2011; and
- the information given in the sections of the Annual Report entitled "Managing the Royal Household" and "Operating, Financial and Strategic Review" for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

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

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

### **Report**

I have no observations to make on these financial statements.

**Amyas C E Morse**

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

10 June 2014

# STATEMENT OF INCOME AND EXPENDITURE

<i>Year to 31 March</i>		<b>2014</b>	2013
	Note	<b>£m</b>	£m
<b>Funding receivable<sup>1</sup>:</b>			
Grants		<b>36.1</b>	31.0
(Transfer to) / draw-down from Sovereign Grant Reserve <sup>2</sup>		<b>(0.4)</b>	2.3
		<b>35.7</b>	33.3
<b>Income</b>			
Property rental income	2	<b>3.2</b>	3.0
Facilities management charges	2	<b>4.4</b>	3.7
Recharges for functions and other income	2	<b>5.8</b>	4.9
		<b>13.4</b>	11.6
<b>Payroll costs</b>	2,4	<b>(18.2)</b>	(18.3)
<b>Other staff costs</b>	2	<b>(1.3)</b>	(1.2)
<b>Other expenditure</b>			
Property maintenance	2	<b>(13.3)</b>	(9.1)
Travel	2	<b>(4.2)</b>	(4.5)
Utilities	2	<b>(3.3)</b>	(3.1)
Housekeeping and hospitality	2	<b>(2.0)</b>	(1.9)
Other	2,3	<b>(6.8)</b>	(6.8)
<b>Total net expenditure</b>		<b>(35.7)</b>	(33.3)
<b>Excess of funding over net expenditure</b>		<b>—</b>	—

The accounting policies are summarised on pages 43 to 49. The Statement of Income and Expenditure presented under Section 2 of the Sovereign Grant Act 2011 should be read in conjunction with the Statement of Comprehensive Income and Expenditure, the Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Reserves on pages 38 to 41. The notes on pages 43 to 69 form part of these accounts. The results shown above relate to continuing activities.

<sup>1</sup> In accordance with the Accounts Direction issued by HM Treasury (See Appendix 3 Page 73), funding received in respect of the Sovereign Grant (and any draw down from the Sovereign Grant Reserve) is not required to be taken to Reserves but may be recognised in the Statement of Income and Expenditure in the year.

<sup>2</sup> The Sovereign Grant Reserve replaced the Royal Household Investment Committee Reserve. Further details can be found on page 42.

# STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

<i>Year to 31 March</i>	2014	2013
	£m	£m
<b>Excess of funding over net expenditure</b>	–	–
Actuarial (loss) / gain for the year (Group Pension Scheme)	(1.0)	0.3
Total recognised (losses) / gains relating to the year	<u>(1.0)</u>	<u>0.3</u>

# STATEMENT OF FINANCIAL POSITION

<i>As at 31 March</i>		2014	2013
	Note	£m	£m
<b>Non-current assets</b>			
Property, plant and equipment	8	11.1	11.8
Intangible assets	7	0.1	0.2
<b>Total non-current assets</b>		11.2	12.0
<b>Current assets</b>			
Inventories	9	0.5	0.5
Trade and other receivables	10	6.5	6.2
Cash and cash equivalents	11	5.4	3.7
<b>Total current assets</b>		12.4	10.4
<b>Total assets</b>		23.6	22.4
<b>Current liabilities</b>			
Trade and other payables	12	(6.6)	(5.7)
<b>Non-current liabilities</b>			
Pension scheme liability	5	(3.4)	(2.5)
<b>Total liabilities</b>		(10.0)	(8.2)
<b>Net assets</b>		13.6	14.2
<b>Reserves</b>			
Non-current assets reserve		11.2	12.0
Inventory reserve		0.5	0.5
Other net current assets reserve		3.9	3.2
Sovereign Grant reserve <sup>1</sup>		1.4	1.0
Pension scheme reserve		(3.4)	(2.5)
<b>Total reserves</b>		13.6	14.2

Sir Alan Reid

Keeper of the Privy Purse

9 June 2014

<sup>1</sup> The Sovereign Grant Reserve replaced the Royal Household Investment Committee Reserve. Further details can be found on page 42.

# STATEMENT OF CASH FLOWS

<i>Year to 31 March</i>	<b>2014</b>	<b>2014</b>	2013	2013
	£m	£m	£m	£m
<b>Reconciliation of total net expenditure to funding</b>				
Total net expenditure		<b>(35.7)</b>		(33.3)
Depreciation	<b>1.3</b>		1.4	
Net excess of contributions over pension service costs	<b>(0.1)</b>		(0.6)	
Increase in receivables	<b>(0.3)</b>		—	
Increase in payables	<b>0.9</b>		0.6	
		<b>1.8</b>		1.4
<b>Net cash outflow from operating activities</b>		<b>(33.9)</b>		(31.9)
<b>Cash flows from investing activities</b>				
Capital expenditure	<b>(0.5)</b>		(0.4)	
<b>Net cash outflow from investing activities</b>		<b>(0.5)</b>		(0.4)
<b>Net cash outflow before funding</b>		<b>(34.4)</b>		(32.3)
<b>Cash flows from financing activities</b>				
Grant funding received	<b>36.1</b>		31.0	
<b>Net cash inflow from financing activities</b>		<b>36.1</b>		31.0
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1.7</b>		(1.3)
<b>Reconciliation of cash and cash equivalents</b>		<b>2014</b>		<b>2013</b>
		£m		£m
As at 1 April		<b>3.7</b>		5.0
Net increase/(decrease)		<b>1.7</b>		(1.3)
<b>As at 31 March</b>		<b>5.4</b>		<b>3.7</b>

## STATEMENT OF CHANGES IN RESERVES

	Non-current assets reserve	Inventory reserve	Other net current assets reserve	Sovereign Grant Reserve	Pension scheme deficit	Total reserves
	£m	£m	£m	£m	£m	£m
As at 1 April 2012	13.0	0.5	2.8	3.3	(3.4)	16.2
Actuarial gain on Group Pension Scheme	–	–	–	–	0.3	0.3
Drawdown from reserve	–	–	–	(2.3)	–	(2.3)
Excess of funding over net expenditure	(1.0)	–	0.4	–	0.6	–
As at 31 March 2013	<b>12.0</b>	<b>0.5</b>	<b>3.2</b>	<b>1.0</b>	<b>(2.5)</b>	<b>14.2</b>

	Non-current assets reserve	Inventory reserve	Other net current assets reserve	Sovereign Grant Reserve	Pension scheme deficit	Total reserves
	£m	£m	£m	£m	£m	£m
As at 1 April 2013	12.0	0.5	3.2	1.0	(2.5)	14.2
Actuarial loss on Group Pension Scheme	–	–	–	–	(1.0)	(1.0)
Transfer to reserve	–	–	–	0.4	–	0.4
Excess of funding over net expenditure	(0.8)	–	0.7	–	0.1	–
As at 31 March 2014	<b>11.2</b>	<b>0.5</b>	<b>3.9</b>	<b>1.4</b>	<b>(3.4)</b>	<b>13.6</b>

# SOVEREIGN GRANT RESERVE

<b>Sovereign Grant Reserve</b>	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
Balance brought forward	<b>1.0</b>	3.3
Transfer to / (drawdown from) reserve	<b>0.4</b>	(2.3)
Balance carried forward	<b>1.4</b>	1.0

The Sovereign Grant Act 2011 provides that a capped reserve fund managed by the Royal Trustees, the Sovereign Grant Reserve, will be established to hold unused funds from the Sovereign Grant. This statement is presented under Section 4 of the Sovereign Grant Act 2011.

The Royal Trustees are the Prime Minister (as First Commissioner of Her Majesty's Treasury), the Chancellor of the Exchequer and the Keeper of the Privy Purse (Civil List Act 1952, Section 10).

If the amount of the Sovereign Grant for a financial year exceeds the audited net relevant expenditure for that year, the Keeper of the Privy Purse must pay an amount equal to the excess to the Royal Trustees. However, if the audited net relevant expenditure for a financial year exceeds the amount of the Sovereign Grant for that year, the Royal Trustees must pay from the Sovereign Grant Reserve Fund to the Keeper of the Privy Purse an amount equal to the excess (or, if less, an amount equal to the value of the Sovereign Grant Reserve Fund). The Trustees must not allow the reserve to exceed about half of the Sovereign Grant in that year. If the Reserve is approaching this level, the Trustees may specify a lower grant amount than would otherwise have been implied by the formula included in the Sovereign Grant Act 2011.

The Sovereign Grant Reserve replaced the Royal Household Investment Committee Reserve. The balance held within the Royal Household Investment Committee Reserve at 31 March 2012 amounted to £3.3 million and was transferred into the Sovereign Grant Reserve at 1 April 2012.

The Sovereign Grant Reserve is held by the Exchequer in accordance with the Framework Agreement with HM Treasury relating to the Sovereign Grant, a copy of which is available on the Monarchy website at [www.royal.gov.uk](http://www.royal.gov.uk).

**Sir Alan Reid**

Keeper of the Privy Purse

9 June 2014

# 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 are prepared in accordance with the Accounts Direction given by HM Treasury as set out in Appendix 3 (pages 73 to 75) and 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.

The financial statements have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances for the purpose of giving a true and fair view of the Sovereign Grant has been selected. The particular policies adopted by the Sovereign Grant are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

### b) Income

**The Sovereign Grant** – This is recognised on a receivable basis. The Sovereign Grant Act 2011 states that if the Grant proves greater than required in a given year, the surplus will be paid into a capped reserve fund, the Sovereign Grant Reserve, managed by the Royal Trustees, which may be drawn down in future years as required. In accordance with the Accounts Direction issued by HM Treasury (See Appendix 3 Page 73), funding received in respect of the Sovereign Grant (and any draw down from the Sovereign Grant Reserve) is not required to be taken to Reserves but may be recognised in the Income and Expenditure account in the year in which it is receivable.

**Facilities management charges** – Amounts due from The Royal Collection Trust to the Sovereign Grant in respect of services provided in connection with admitting the public to Windsor Castle and Buckingham Palace are recognised on a receivable basis.

**Rental income** – Rental income is recognised on a straight-line basis over the term of the lease.

All other income is accounted for on a receivable basis. Any income received in advance is recorded as deferred income in the Statement of Financial Position.

### **c) Leases**

A review of leases confirmed that the leases which have a material effect on the financial statements are operating leases whereby the lessor retains substantially all the risks and rewards of ownership.

#### **Keeper of the Privy Purse as lessee**

Operating lease payments are recognised as an expense in the Statement of Income and Expenditure on a straight-line basis over the lease term.

#### **Keeper of the Privy Purse as lessor**

Operating lease rentals are credited to the Statement of Income and Expenditure on a straight-line basis over the period of the lease. Properties which are all held by right of the Crown are not capitalised within these accounts in accordance with the Accounts Direction issued by HM Treasury (See Appendix 3 Page 73).

### **d) Intangible assets**

Intangible assets comprise computer software that is not integral to any associated hardware. Following initial recognition at cost, intangible assets are measured at cost at the date of acquisition less any amortisation and any impairment losses.

#### *Amortisation*

Intangible assets are amortised on a straight-line basis over their useful lives as follows:

- Information systems software 3 to 5 years

Internally generated intangible assets, including internally generated software, that do not qualify for recognition as an intangible asset under IAS 38 are recognised as an expense in the year in which the expenditure is incurred.

#### **e) Property, plant and equipment**

Expenditure over £5,000 (net of recharges) on improvements to the Estate (see note 6) is capitalised, except where the improvements are incidental to general repair and refurbishment work; costs capitalised include related fees and VAT.

Assets under construction are carried at accumulated cost. Depreciation does not commence until the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Assets held in right of the Crown are not capitalised within these accounts although expenses relating to their use and maintenance are included.

##### *Heritage Assets*

- **Land and Buildings**

The Sovereign Grant is used to maintain the land and buildings that are held by The Queen in trust for the Nation and cannot be sold without the authority of the Department for Culture, Media and Sport. Owing to the incomparable nature of these properties, it is considered that conventional valuation techniques lack sufficient reliability and that, even if valuations could be obtained, the costs would be onerous compared with the additional benefits derived by the users of the accounts. As a result, no value is reported for these assets in the Statement of Financial Position.

- **Expenditure on Major Restoration**

The cost of associated major repairs is charged in the Statement of Income and Expenditure in the year in which it is incurred. Where improvements are made to the buildings that are deemed to be capital in nature, they are capitalised as buildings within Non current assets, held at historical cost and depreciated over either 10 or 30 years.

Further information is given in Note 6 to the accounts.

##### *Other Assets*

HM Treasury requires that certain fixed assets should be revalued on a modified historical cost basis. In view of the nature of the non current assets, it is not considered appropriate to use this basis and historical cost has been applied.

This treatment of non-current assets is in accordance with the Accounts Direction issued by HM Treasury (See Appendix 3 Page 73).

### *Depreciation*

Depreciation is charged on a straight-line basis starting in the month following that of purchase, at the following rates:

#### *Property Improvements and Infrastructure*

- Automatic fire detection (AFD) 10 years
- Fire compartmentation 30 years
- General building improvements 10-30 years
- Refurbishments (commercial lettings only) 7 years
- Lifts 20 years
- Water mains 30 years

#### *Furnishings and Equipment*

- Furnishings 10 to 20 years
- Other equipment 3 to 10 years

#### *Plant and Machinery*

- Electrical Plant 10 years
- Horses 12 years
- Information technology equipment 3 to 5 years
- Helicopter operation equipment 5 years
- Motor Vehicles 3 to 10 years

### **f) Impairment of non-current assets**

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in full. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

### **g) Inventories**

Inventories are held at the lower of cost and net realisable value. The cost of wines and spirits is measured using the average cost method.

## **h) Financial Instruments**

When financial instruments are recognised initially, they are measured at fair value at the inception of the contract.

### **(a) Trade and other receivables**

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no expectation of recovery.

### **(b) Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity of three months or less. Cash equivalents are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

### **(c) Trade and other payables**

Trade and other payables are recognised at the invoiced amount.

The carrying values of the above financial instruments are disclosed in the Statement of Financial Position.

## **i) Pensions**

The Royal Household participates in two pension schemes providing benefits based on final pensionable pay, the Royal Household Pension Scheme and the Royal Households Group Pension Scheme. The assets of the schemes are held separately from those of the Sovereign Grant. Contributions to the schemes are charged to the Statement of Income and Expenditure to reflect the cost of benefits accruing to members so as to spread pension costs over employees' working lives with the Royal Household.

One of these pension schemes, the Royal Household Pension Scheme, is managed by the Government and the benefits of the scheme are broadly by-analogy to the benefits of the Principal Civil Service Scheme (PCSPS). It is an unfunded scheme and the Consolidated Fund pays as a Standing Service the pension benefits of those Royal Household employees who entered employment before 1 April 2001. The liabilities for this scheme are included within the resource accounts of the Consolidated Fund Account. The Royal Household is unable to identify the share of the underlying assets and liabilities of the scheme attributable to employees funded by the Sovereign Grant (or its equivalent in previous years) on a consistent and reasonable basis and therefore as permitted by IAS 19 : Employee Benefits, this scheme is treated as a defined contribution scheme by the Royal Household and the full cost of contributions made in the year is reflected in the Statement of Income and Expenditure.

IAS 19: Employee Benefits is also applicable to the second scheme, the Royal Households Group Pension Scheme, and accordingly the Statement of Income and Expenditure includes the cost of benefits accruing during the year in respect of current service, the expected return on the scheme's assets and the increase in the present value of the scheme's liabilities arising from the passage of time. The actuarial gain/(loss) recognised in the pension scheme for the year is shown within the Statement of Comprehensive Income and Expenditure and the Statement of Financial Position includes the liability in the pension scheme, taking the assets at their year-end bid-values and liabilities at their actuarially calculated values discounted using the annualised yield on the iBoxx over 15-year AA rated corporate bond index at the year end.

The Royal Household also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Sovereign Grant in an independently administered fund. The amount charged to the Statement of Income and Expenditure represents the contributions payable to the scheme in respect of the year.

Further details of the pension schemes are provided in Note 5 to these accounts.

## **j) Other employee benefits**

Other short term employee benefits comprise holiday pay which is recognised as an expense over the period in which it accrues.

## **k) Reserves**

The Non Current Assets, Inventory and Other Net Current Assets reserves represent funds utilised to fund the acquisition of property, plant and equipment and inventories and which have not been included in the Statement of Income and Expenditure.

The Pension Scheme reserve represents the amount of the pension scheme deficit at the year end. This will need to be settled from the Sovereign Grant Reserve or future Sovereign Grant funding over time.

The Sovereign Grant Reserve represents unused funds from the Sovereign Grant.

## **l) Significant judgements, key assumptions and estimates**

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires the Keeper of the Privy Purse to exercise judgement in applying the Royal Household's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the accounts are disclosed below: -

### **Property project accruals**

The accruals for work completed on projects in the property annual works programme but not yet billed are calculated on the basis of an estimate of the percentage of the project that has been completed. This percentage is provided by the Director of Property Services in consultation with the property management team. Annual works programme project accruals as at 31 March 2014 were £1.6 million (2012-13: £0.6 million).

### **Post-retirement benefits**

The pension costs and obligations of the Royal Households Group Pension Scheme are calculated on the basis of a range of assumptions, including the discount rate, inflation rate, salary growth and mortality. Differences arising as a result of actual experience differing from the assumptions, or future changes in the assumptions will be reflected in subsequent periods. A small change in assumptions can have a significant impact on the valuation of the liabilities. More details on the assumptions used are given in note 5.

### **Holiday pay Accrual**

The employee holiday year runs from January to December with a maximum carry over of leave from one year to the next of 9 days. The estimated accrual is based on a combination of actual leave entitlement and average carry forward.

## 2. SEGMENTAL ANALYSIS

All operations funded by the Sovereign Grant are based in the UK and are conducted by four departments of the Royal Household.

The departments are: Private Secretary's Office (PSO), Privy Purse and Treasurer's Office (PPTO), Master of the Household's Department (MOH) and Lord Chamberlain's Office (LCO).

The operations of these four departments are monitored by the Lord Chamberlain's Committee which makes decisions as to the allocation of funds to each department's activities.

<i>Year to 31 March</i>	<b>PSO</b>	<b>PPTO</b>	<b>MOH</b>	<b>LCO</b>	<b>Total 2014</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Income</b>					
Property rental income	—	3.2	—	—	<b>3.2</b>
Facilities management charges	—	4.4	—	—	<b>4.4</b>
Recharges and other income	0.2	3.4	2.0	0.2	<b>5.8</b>
	0.2	11.0	2.0	0.2	<b>13.4</b>
<b>Payroll costs</b>	(3.1)	(6.1)	(5.9)	(3.1)	<b>(18.2)</b>
<b>Other staff costs</b>	(0.1)	(0.7)	(0.2)	(0.3)	<b>(1.3)</b>
<b>Other expenditure</b>					
Property maintenance	—	(13.3)	—	—	<b>(13.3)</b>
Travel	—	(0.1)	—	(4.1)	<b>(4.2)</b>
Utilities	—	(3.3)	—	—	<b>(3.3)</b>
Housekeeping and hospitality	—	(0.1)	(1.9)	—	<b>(2.0)</b>
Other	(0.3)	(5.2)	(0.6)	(0.7)	<b>(6.8)</b>
<b>Total net expenditure</b>	<b>(3.3)</b>	<b>(17.8)</b>	<b>(6.6)</b>	<b>(8.0)</b>	<b>(35.7)</b>

Other expenditure includes depreciation and amortisation of £1.3 million under PPTO (2012-13: £1.4 million).

Facilities Management Charges amounting to £4.4 million (2012-13: £3.7 million) from The Royal Collection Trust amount to more than 10% of the Sovereign Grant annual revenue and are shown under PPTO.

All material revenues are derived from the United Kingdom.

<i>Year to 31 March</i>	<b>PSO</b>	<b>PPTO</b>	<b>MOH</b>	<b>LCO</b>	<b>Total 2013</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Income</b>					
Property rental income	–	3.0	–	–	<b>3.0</b>
Facilities management charges	–	3.7	–	–	<b>3.7</b>
Recharges and other income	0.2	2.6	2.0	0.1	<b>4.9</b>
	<u>0.2</u>	<u>9.3</u>	<u>2.0</u>	<u>0.1</u>	<u><b>11.6</b></u>
<b>Payroll costs</b>	(3.1)	(6.1)	(6.0)	(3.1)	<b>(18.3)</b>
<b>Other staff costs</b>	(0.1)	(0.7)	(0.2)	(0.2)	<b>(1.2)</b>
<b>Other expenditure</b>					
Property maintenance	–	(9.1)	–	–	<b>(9.1)</b>
Travel	–	(0.1)	–	(4.4)	<b>(4.5)</b>
Utilities	–	(3.1)	–	–	<b>(3.1)</b>
Housekeeping and hospitality	–	(0.1)	(1.8)	–	<b>(1.9)</b>
Other	(0.3)	(4.9)	(1.0)	(0.6)	<b>(6.8)</b>
<b>Total net expenditure</b>	<u>(3.3)</u>	<u>(14.8)</u>	<u>(7.0)</u>	<u>(8.2)</u>	<u><b>(33.3)</b></u>

### 3. OTHER EXPENDITURE

	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
Amortisation of software (note 7)	<b>0.1</b>	0.1
Depreciation of property, plant and equipment (note 8)	<b>1.2</b>	1.3
Other costs	<b>5.5</b>	5.4
	<u><b>6.8</b></u>	<u>6.8</u>

Auditors remuneration of £44,000 was charged for the year by the National Audit Office (2012-13: £47,000). There were no non-audit fees paid to the auditors (2012-13: nil).

A breakdown of Other Expenditure can be found in Appendix 1.

## 4. STAFF NUMBERS AND COSTS

### Staff Numbers

The average number of full-time equivalent (FTE) staff paid from the Sovereign Grant during the year to 31 March was as set out below.

	2014	2013
Lord Chamberlain	1	1
Private Secretary's Office	64	62
Privy Purse and Treasurer's Office	123	124
Master of the Household's Department	177	184
Lord Chamberlain's Office	66	65
	<u>431</u>	<u>436</u>

This figure is shown net of staff time recharged to related parties. Where staff work part-time they are recorded according to the proportion of their time devoted to, and paid by, the Sovereign Grant.

The total number of FTE staff employed by the Royal Household before recharges and secondments to related parties amounted to 497 (2012-13: 500).

The total cost of Royal Household employees (including members of the Lord Chamberlain's Committee) paid from the Sovereign Grant during the year to 31 March was as follows:

### Payroll Costs

	2014	2013
	£m	£m
Salaries	14.1	14.4
Temporary staff	0.2	0.2
National insurance	1.3	1.3
Pension contributions	2.6	2.4
	<u>18.2</u>	<u>18.3</u>

The total cost of FTE staff employed by the Royal Household before recharges and secondments to related parties amounted to £18.6 million (2012-13: £18.5 million).

There were four exit packages in the year totalling £44,000. Of these, one was less than £10,000 and three were in the range of £10,000 to £25,000.

Details of the remuneration of members of the Lord Chamberlain's Committee can be found in the Remuneration Report on Page 8.

### **Other Staff Costs**

Other Staff Costs £1.3 million (2012-13: £1.2 million) include agency staff who are engaged in the performance of duties for the Sovereign Grant at a cost of £0.5 million (2012-13: £0.5 million).

Agency staff costs include seven Royal Mail staff who deliver internal and external mail to all London Palaces and Windsor Castle and despatches to other Royal residences. In addition, there are three telegraph clerks at Buckingham Palace and one at Windsor Castle whose duties include processing telegrams, 1st Day Covers and Royal Cards.

## **5. PENSION ARRANGEMENTS**

Until 31 March 2002, all full-time permanent employees were entitled to be members of:

- (a) a scheme managed by the Government by-analogy 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 post 1 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**

The scheme is managed by the Government and has terms by-analogy to the Principal Civil Service Pension Scheme. Eligible employees are those paid from the Sovereign Grant, who were formerly paid from the Civil List who joined the Royal Household prior to 1 April 2001 and employees who transferred from the Department of the Environment or the Property Services Agency (PSA) when the Royal Household's Property Services section was established and were formerly paid from the Grant-in-aid for the maintenance of the Occupied Royal Palaces. The scheme is an unfunded multi-employer defined benefit scheme in which the Royal Household is unable to identify the share of the underlying assets and liabilities attributable to employees funded by the Sovereign Grant (or its equivalent in previous years) and as permitted by IAS 19: Employee Benefits, this scheme will continue to be accounted for as if it were a defined contribution scheme.

The scheme actuary (Government Actuary's Department) valued the scheme as at 31 March 2009 and updates that valuation for IAS19 annually. The total liabilities of the scheme of £98.7 million (2012-13: £90.7 million) are included in the resource accounts of the Consolidated Fund Account. The Sovereign Grant funds the employment costs of 96 of the 109 active members of the scheme as at 31 March 2014. Pension contributions are paid directly to the Consolidated Fund and, in turn, pension benefits are paid directly from the Consolidated Fund as a Standing Service on a defined benefit basis. The contribution rate during the year was 21.1% of pensionable pay, reflecting a valuation by the Government Actuary's Department. The contribution rates reflect the cost of pension benefits as they are earned by employees. For 2013-14, employers' contributions of £0.7 million were payable to the scheme (2012-13: £0.6 million). For 2014-15, employers' contributions are expected to be £0.6 million.

### **Royal Households Group Pension Scheme**

All full-time permanent employees who joined before 31 March 2002 and are not members of the Royal Household Pension Scheme were 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 pensionable 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. As the scheme is closed to new entrants, under the projected unit method the current service cost will increase as the members approach retirement. The most recent completed valuation was as at 31 December 2011. 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 0.5% per annum post-retirement and 2% per annum pre-retirement, that real salary increases would average 4.1% 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 £49.0 million and that this value of the assets was sufficient to cover 72% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Following this valuation, the employer's contribution rate is 29.9% from 1 April 2013, plus a lump sum payment of £212,000 each year for twelve years from 1 April 2013 increasing annually at 2.8% per annum.

The Royal Households Group Pension Scheme is a defined benefit plan that shares risks between various related parties with each employer being jointly and severally liable for their respective obligations under the scheme.

The benefit accrual rate was reduced from 1/60 to 1/70 for each year of service from 1 April 2007.

It is assumed that these measures will be sufficient to eliminate the Sovereign Grant share of the past service deficit of £6.4 million over twelve years and meet the current service cost.

The valuation used for this disclosure has been based on the most recent actuarial review of the Royal Households Group Pension Scheme as at 31 December 2011 updated by an independent qualified actuary, Aon Hewitt Associates to take account of the requirements of IAS 19: Accounting for pension costs in order to assess the liabilities in respect of the Sovereign Grant sections of the scheme at 31 March 2014.

Scheme assets are stated at their market values at 31 March 2014.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below:

Actuarial assumptions adopted as at 31 March (% pa)	<b>2014</b>	2013	2012
Discount rate	<b>4.3</b>	4.6	4.8
Rate of general long-term increase in salaries	<b>3.9</b>	3.9	3.8
Rate of price inflation (RPI)	<b>3.4</b>	3.4	3.3
Rate of price inflation (CPI)	<b>2.4</b>	2.4	2.3
Rate of increase to pensions in payment	<b>3.2</b>	3.2	3.2

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The mortality assumptions are based on the recent actual mortality experience of Scheme members and allow for expected future improvements in mortality rates.

Main demographic assumptions adopted as at 31 March (years)	<b>2014</b>	2013	2012
Life expectancy for male currently aged 65	<b>22.6</b>	22.6	22.3
Life expectancy for female currently aged 65	<b>24.9</b>	24.8	24.2
Life expectancy at 65 for male currently aged 45	<b>24.4</b>	24.3	24.7
Life expectancy at 65 for female currently aged 45	<b>26.8</b>	26.7	26.6

Members are assumed to take their maximum cash lump sum at retirement.

The Royal Household employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme at 31 March 2014.

### Fair value by asset class with details of those quoted in an active market

As at 31 March	2014		2013		2012	
	Value	Quoted	Value	Quoted	Value	Quoted
	£m	£m	£m	£m	£m	£m
UK equities	2.4	–	2.2	–	1.2	–
Overseas equities	9.5	–	8.6	–	7.1	–
Fixed interest gilts	1.2	–	1.3	–	3.2	–
Index-linked gilts	5.3	–	5.1	–	2.4	–
Property	1.9	1.9	1.6	1.6	1.4	1.4
Cash/net current assets	0.1	–	0.2	–	0.4	–
	<b>20.4</b>	<b>1.9</b>	<b>19.0</b>	<b>1.6</b>	<b>15.7</b>	<b>1.4</b>

### Reconciliation of funded status to the balance sheet

As at 31 March	2014	2013	2012
	£m	£m	£m
Fair value of scheme assets	20.4	19.0	15.7
Present value of funded defined benefit obligations	(23.8)	(21.5)	(19.1)
Net pension liability recognised on the balance sheet	<b>(3.4)</b>	<b>(2.5)</b>	<b>(3.4)</b>

There is a net pension liability of £3.4 million as at 31 March 2014. The amount of this net pension liability has a consequential effect on reserves.

### Analysis of amounts charged against income and expenditure

Year to 31 March	2014	2013
	£m	£m
Current service cost	0.7	0.7
Administration costs incurred	0.1	0.1
Interest expense on defined benefit obligations	1.0	0.9
Interest income on scheme assets	(0.9)	(0.8)
Amounts charged against income and expenditure	<b>0.9</b>	<b>0.9</b>

### Analysis of amounts charged against comprehensive income and expenditure

Year to 31 March	2014	2013
	£m	£m
Return on scheme assets in excess of that recognised in net interest	(0.1)	(1.4)
Actuarial losses due to changes in financial assumptions	1.3	0.9
Actuarial gains due to changes in demographic assumptions	–	(0.1)
Actuarial (gains) / losses due to liability experience	(0.2)	0.3
Amounts charged against comprehensive income and expenditure	<u>1.0</u>	<u>(0.3)</u>

### Changes to the present value of the defined benefit obligation

As at 31 March	2014	2013
	£m	£m
Defined benefit obligations as at 1 April	21.5	19.1
Movement in year:		
Current service cost	0.7	0.7
Interest expense on defined benefit obligations	1.0	0.9
Actuarial losses on scheme liabilities arising from:		
changes in demographic assumptions	–	(0.1)
changes in financial assumptions	1.3	0.9
experience	(0.2)	0.3
Net benefits paid out	(0.5)	(0.3)
Defined benefit obligations as at 31 March	<u>23.8</u>	<u>21.5</u>

### Analysis of the defined benefit obligation by membership category

As at 31 March	2014	2013
	£m	£m
Current employee benefits	14.3	12.8
Deferred member benefits	4.2	3.8
Pensioner member benefits	5.3	4.9
Total defined benefit obligation	<u>23.8</u>	<u>21.5</u>

The scheme duration is an indicator of the weighted average time until benefit payments are made. For the scheme as a whole, the duration is around 21 years.

### Changes to the fair value of scheme assets

As at 31 March	2014	2013
	£m	£m
Fair value of scheme assets as at 1 April	19.0	15.7
Movement in year:		
Interest income on scheme assets	0.9	0.8
Contributions by employer	1.0	1.4
Administration costs incurred	(0.1)	(0.1)
Remeasurement gains on scheme assets	0.1	1.5
Net benefits paid out	(0.5)	(0.3)
Fair value of scheme assets as at 31 March	<u>20.4</u>	<u>19.0</u>

### Actual return on scheme assets

Year to 31 March	2014	2013
	£m	£m
Interest income on scheme assets	0.9	0.8
Remeasurement gains on scheme assets	0.1	1.5
Actual return on scheme assets	<u>1.0</u>	<u>2.3</u>

An analysis of the movement in the deficit of the scheme over the year is as follows:

As at 31 March	2014	2013
	£m	£m
Deficit as at 1 April	(2.5)	(3.4)
Movement in year:		
Current service cost	(0.7)	(0.7)
Interest expense on defined benefit obligations	(1.0)	(0.9)
Contributions by employer	1.0	1.4
Administration costs incurred	(0.1)	(0.1)
Interest income on scheme assets	0.9	0.8
Actuarial (losses) / gains	(1.0)	0.4
Deficit as at 31 March	<u>(3.4)</u>	<u>(2.5)</u>

### Analysis of amounts recognised in the Statement of Comprehensive Income and Expenditure

Year to 31 March	2014	2013
	£m	£m
Total remeasurement (losses) / gains	(1.0)	0.3
Change in assets not recoverable in the future	—	—
Total (losses) /gains recognised in the Statement of Comprehensive Income and Expenditure	(1.0)	0.3
Cumulative amount of losses recognised in Statement of Comprehensive Income and Expenditure	(2.3)	(1.3)

### History of assets values, defined benefit obligations and the deficit in the scheme

	2014	2013	2012
	£m	£m	£m
Fair value of scheme assets	20.4	19.0	15.7
Defined benefit obligations	(23.8)	(21.5)	(19.1)
Deficit in scheme	(3.4)	(2.5)	(3.4)

### History of experience gains and losses

	2014	2013	2012
	£m	£m	£m
Experience gains on scheme assets	0.1	1.5	1.4
Experience gains / (losses) on scheme liabilities	0.2	(0.3)	(0.3)

## Risks associated with the scheme

The scheme exposes the employers to a number of risks, the most significant of which are:

*Asset volatility* - The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long term objectives.

*Changes in bond yields* - A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

*Inflation risk* - The majority of the Scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

*Life expectancy* - The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

## Sensitivity to key assumptions

The key assumptions used for IAS 19 are: discount rate, inflation, salary increases and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is as follows:

£m		Service Cost	Net Interest	Total I&E charge	Scheme assets	DBO	Deficit
<b>Current figures</b>		<b>0.7</b>	<b>0.1</b>	<b>0.9</b>	<b>20.4</b>	<b>(23.8)</b>	<b>(3.4)</b>
Following:							
0.25% decrease in the discount rate	<i>Change</i>	–	0.1	0.1	–	(1.1)	(1.1)
	New	0.7	0.2	1.0	20.4	(24.9)	(4.5)
0.25% increase in the inflation assumption	<i>Change</i>	–	0.1	0.1	–	(1.1)	(1.1)
	New	0.7	0.2	1.0	20.4	(24.9)	(4.5)
1 year increase in life expectancy	<i>Change</i>	–	0.1	0.1	–	(0.7)	(0.7)
	New	0.7	0.2	1.0	20.4	(24.5)	(4.1)
0.5% p.a. reduction in salary increase assumption	<i>Change</i>	–	–	–	–	0.7	0.7
	New	0.7	0.1	0.8	20.4	(23.1)	(2.7)
1.0% p.a. reduction in salary increase assumption	<i>Change</i>	(0.1)	–	(0.1)	–	1.3	1.3
	New	0.6	0.1	0.8	20.4	(22.5)	(2.1)

### **Estimate of income and expenditure charge for the coming year**

Using the assumptions for returns on the assets set out above, the charge to the Statement of Income and Expenditure for the next year is explained as follows:

Year to 31 March	2015
	£m
Current service cost	0.7
Administration Expenses	0.1
Interest cost	0.1
Total estimated pension expense	<u>0.9</u>

### **Royal Household Defined Contribution (Stakeholder) Pension Scheme**

Full-time permanent employees joining from 1 April 2002 are entitled to be members of the Royal Household Defined Contribution (Stakeholder) Pension Scheme (“the Stakeholder Scheme”), which is 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.

## **6. HERITAGE ASSETS NOT RECOGNISED IN THE BALANCE SHEET**

The Sovereign Grant is used to maintain the following properties, collectively referred to as the Estate, for the benefit of future generations:

- 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; and
- Windsor Castle and buildings in the Home and Great Parks at Windsor.

The land and buildings are held by The Queen in trust for the Nation and cannot be sold without the authority of the Secretary of State for Culture, Media and Sport. The statutory duties of the Secretary of State for Culture, Media and Sport under section 21 of the Crown Lands Act 1851 are suspended under section 11 of the Sovereign Grant Act 2011, however, the Department for Culture, Media and Sport retain an interest in ensuring that the Sovereign Grant is being used by the Royal Household to properly maintain the Occupied Royal Palaces.

During the past year there have been no acquisitions or disposals of heritage assets.

The Royal Household aims to maintain the Estate in as good a state of repair as is possible within the constraints of available funding. A web based system is used to record actual condition against target condition for these assets and this is used to determine the priorities for maintenance across the Estate. The ongoing cost of maintenance and upkeep is reported in the Statement of Income and Expenditure in the year in which it is incurred. Where improvements are made to the buildings that are deemed to be capital in nature, they are capitalised as buildings within Non-current assets, held at historical cost and depreciated over either 10 or 30 years.

The Estate is used by the Sovereign in fulfilling the role and functions of Head of State and by other Members of the Royal Family in support of The Queen.

## 7. INTANGIBLE ASSETS

	Software £m
<b>Cost</b>	
At 1 April 2013	0.7
Additions	—
At 31 March 2014	<u><u>0.7</u></u>
<b>Amortisation</b>	
At 1 April 2013	0.5
Charge for the year	<u>0.1</u>
At 31 March 2014	<u><u>0.6</u></u>
<b>Net book value</b>	
At 31 March 2014	<u><u>0.1</u></u>
At 1 April 2013	<u><u>0.2</u></u>

  

	Software £m
<b>Cost</b>	
At 1 April 2012	0.7
Additions	—
At 31 March 2013	<u><u>0.7</u></u>
<b>Amortisation</b>	
At 1 April 2012	0.4
Charge for the year	<u>0.1</u>
At 31 March 2013	<u><u>0.5</u></u>
<b>Net book value</b>	
At 31 March 2013	<u><u>0.2</u></u>
At 1 April 2012	<u><u>0.3</u></u>

## 8. PROPERTY, PLANT AND EQUIPMENT

	Property Improvements & Infrastructure £m	Furnishings & Equipment £m	Plant & Machinery £m	AIC £m	Total £m
<b>Cost</b>					
At 1 April 2013	16.3	2.4	4.6	0.1	23.4
Transfers	–	–	0.1	(0.1)	–
Additions	0.1	0.1	0.3	–	0.5
Disposals	–	(0.1)	(0.1)	–	(0.2)
At 31 March 2014	<b>16.4</b>	<b>2.4</b>	<b>4.9</b>	<b>–</b>	<b>23.7</b>
<b>Depreciation</b>					
At 1 April 2013	7.1	1.5	3.0	–	11.6
Charge for the year	0.6	0.2	0.4	–	1.2
Disposals	–	(0.1)	(0.1)	–	(0.2)
At 31 March 2014	<b>7.7</b>	<b>1.6</b>	<b>3.3</b>	<b>–</b>	<b>12.6</b>
<b>Net book value</b>					
At 31 March 2014	<b>8.7</b>	<b>0.8</b>	<b>1.6</b>	<b>–</b>	<b>11.1</b>
At 1 April 2013	<b>9.2</b>	<b>0.9</b>	<b>1.6</b>	<b>0.1</b>	<b>11.8</b>

“AIC” refers to assets in the course of construction. These assets will be transferred to the relevant category and depreciated from the date of completion.

	Property Improvements & Infrastructure £m	Furnishings & Equipment £m	Plant & Machinery £m	AIC £m	Total £m
<b>Cost</b>					
At 1 April 2012	16.1	2.4	4.6	0.5	23.6
Transfers	0.4	–	–	(0.4)	–
Additions	0.2	–	0.2	–	0.4
Disposals	(0.4)	–	(0.2)	–	0.6
At 31 March 2013	<b>16.3</b>	<b>2.4</b>	<b>4.6</b>	<b>0.1</b>	<b>23.4</b>
<b>Depreciation</b>					
At 1 April 2012	6.8	1.3	2.8	–	10.9
Charge for the year	0.7	0.2	0.4	–	1.3
Disposals	(0.4)	–	(0.2)	–	(0.6)
At 31 March 2013	<b>7.1</b>	<b>1.5</b>	<b>3.0</b>	<b>–</b>	<b>11.6</b>
<b>Net book value</b>					
At 31 March 2013	<b>9.2</b>	<b>0.9</b>	<b>1.6</b>	<b>0.1</b>	<b>11.8</b>
At 1 April 2012	<b>9.3</b>	<b>1.1</b>	<b>1.8</b>	<b>0.5</b>	<b>12.7</b>

## 9. INVENTORIES

<i>Year to 31 March</i>	<b>2014</b>	2013
	<b>£m</b>	£m
Wine and spirits	<b>0.4</b>	0.4
Other	<b>0.1</b>	0.1
	<b>0.5</b>	0.5

Wine is held in stock to age. Other Inventories comprises stocks of official gifts, stationery and food.

## 10. TRADE AND OTHER RECEIVABLES

<i>Year to 31 March</i>	<b>2014</b>	2013
	<b>£m</b>	£m
Recharges	<b>1.2</b>	1.3
Other receivables	<b>0.3</b>	0.2
Prepayments and accrued income	<b>5.0</b>	4.7
	<b>6.5</b>	6.2

Prepayments and accrued income includes £4.4 million (2012-13: £3.7 million) in respect of facilities management charges payable by The Royal Collection Trust. The facilities management charges are paid to the Sovereign Grant following the annual audit of Royal Collection Trust's accounts.

No provision for bad or doubtful debts was considered necessary as at 31 March 2014 (2012-13: nil).

## 11. CASH AND CASH EQUIVALENTS

<i>Year to 31 March</i>	<b>2014</b>	2013
	<b>£m</b>	£m
Government Banking Service	<b>4.3</b>	3.3
Commercial banks and cash in hand	<b>1.1</b>	0.4
	<b>5.4</b>	3.7

## 12. TRADE AND OTHER PAYABLES

<i>Year to 31 March</i>	<b>2014</b>	2013
	<b>£m</b>	£m
Trade payables	<b>1.3</b>	1.5
Rent deposits	<b>0.1</b>	0.1
Taxes and social security	<b>1.1</b>	1.3
Other payables	<b>0.7</b>	0.7
Accruals and deferred income	<b>3.4</b>	2.1
	<b>6.6</b>	5.7

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. It is considered that the carrying amount of trade payables approximates to their fair value.

## 13. LEASING

### Operating leases with tenants

The future aggregate minimum rentals receivable under non-cancellable operating leases are receivable as follows:

	<b>2014</b>	2013
	<b>£m</b>	£m
Within one year	<b>0.9</b>	0.8
Later than one year and not later than five years	<b>0.1</b>	–
	<b>1.0</b>	0.8

### Obligations under operating leases

The total of future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2014</b>	2013
	<b>£m</b>	£m
Within one year	<b>1.1</b>	0.9
Later than one year and not later than five years	<b>1.9</b>	2.0
Later than 5 years	<b>0.2</b>	0.7
	<b>3.2</b>	3.6

The analysis of operating lease and other commitments has been updated in the year to reflect IFRS reporting requirements and the comparatives have been adjusted accordingly.

## 14. OTHER COMMITMENTS

The Royal Household had committed to expenditure, payable as follows:

	2014	2013
As at 31 March	£m	£m
Within one year	11.6	10.7
Later than one year and not later than five years	1.8	1.5
Later than 5 years	0.2	0.6
	<u>13.6</u>	<u>12.8</u>

This expenditure comprises:

	2014	2013
As at 31 March	£m	£m
Property Maintenance		
• Contracted	1.7	4.3
• Authorised	9.6	5.6
Royal Train – service contract	0.2	0.2
Helicopter – maintenance contracts	2.1	2.7
	<u>13.6</u>	<u>12.8</u>

There were no capital commitments included within contracted commitments (2012-13: nil)

## 15. CONTINGENT LIABILITIES

There were no contingent liabilities at the year end (2012-13: nil).

## 16. RELATED PARTY TRANSACTIONS

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

	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	<b>Balance due from:</b>		<b>Recoveries from:</b>	
The Royal Collection Trust <sup>1</sup>	<b>5.3</b>	4.5	<b>9.3</b>	8.4
Privy Purse	<b>0.1</b>	0.2	<b>0.6</b>	0.6
Other Royal Households	<b>0.3</b>	0.2	<b>1.2</b>	1.1
	<b>Balance due to:</b>		<b>Charged by:</b>	
Privy Purse	<b>0.2</b>	—	<b>0.4</b>	0.2

Recoveries include management fees charged by the Royal Household for various services including catering, cleaning and the provision of press office, internal audit, security liaison and information systems services.

In addition, recoveries made from The Royal Collection Trust include the Windsor Castle and Buckingham Palace facilities management charges, rent for accommodation, property refurbishment and maintenance services costs, utilities and staff costs. Recoveries from the Privy Purse include rent for accommodation provided, repairs and maintenance services carried out by the Property Section, sales of plants to the Windsor Farm Shop and staff costs for project management services. Recoveries from Other Royal Households include rent for accommodation, property refurbishment and maintenance service costs, utilities and staff costs.

Charges to the Royal Household are in respect of the purchase of horses and the costs of cleaning and accommodation for official staff whilst at Balmoral and Sandringham.

None of the key staff employed by the Royal Household has undertaken any material transaction with the Sovereign Grant during the year.

The Sovereign Grant Accounts are consolidated within the Financial Statements of HM Treasury a copy of which can be found on [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

<sup>1</sup> The prior year figures have been restated to exclude £0.8 million of VAT recoverable.

The Royal Household has a number of transactions with other government departments as follows:

	<b>2014</b>	2013	<b>2014</b>	2013
	<b>£m</b>	£m	<b>£m</b>	£m
	<b>Balance due / (to)</b>		<b>Recoveries from /</b>	
	<b>from:</b>		<b>(charges to):</b>	
Foreign and Commonwealth Office	<b>0.1</b>	0.3	<b>0.4</b>	0.4
Home Office	–	0.2	<b>0.1</b>	0.2
Metropolitan Police	–	–	<b>0.1</b>	0.1
Cabinet Office	<b>(0.1)</b>	(0.1)	<b>0.1</b>	–

## 17. ISSUE OF ACCOUNTS

On 9 June 2014 the financial statements were approved by the Accounting Officer and Audit Committee on behalf of the Lord Chamberlain's Committee prior to certification by the Comptroller and Auditor General on 10 June 2014. On this date the financial statements are deemed to be authorised for issue.

# APPENDIX 1: ADDITIONAL NOTES TO THE STATEMENT OF INCOME AND EXPENDITURE

## Property maintenance

	2014 £m	2013 £m
Projects		
• construction	9.4	5.9
• fees	0.8	0.4
Reactive maintenance	3.1	2.8
	<u>13.3</u>	<u>9.1</u>

## Travel

	2014 £m	2013 £m
Air travel		
• Helicopter (includes operating lease payments of £0.5 million)	1.5	1.6
• Fixed wing (large)	0.6	0.2
• Fixed wing (small)	0.9	1.2
• Scheduled	0.3	0.4
Rail travel (includes imputed operating lease payments of £0.2 million)	0.7	0.9
Motor vehicles	0.2	0.2
	<u>4.2</u>	<u>4.5</u>

## Utilities

	2014 £m	2013 £m
Rates and council tax	1.0	1.0
Electricity	0.9	0.7
Gas	1.1	1.0
Water	0.2	0.2
Telephones	0.1	0.2
	<u>3.3</u>	<u>3.1</u>

**Housekeeping and hospitality**

	2014	2013
	£m	£m
Food and drink	1.3	1.2
Cleaning, laundry and other	0.7	0.7
	<u>2.0</u>	<u>1.9</u>

**Other**

	2014	2013
	£m	£m
Depreciation and amortisation of software	1.3	1.4
Information Systems and equipment	3.2	3.2
Insurance, legal advice and other professional services	0.9	0.9
Printing, postage and stationery	0.6	0.5
Other	0.8	0.8
	<u>6.8</u>	<u>6.8</u>

## APPENDIX 2: THREE YEAR INFORMATION (UNAUDITED)

<i>Year to 31 March</i>	<b>2014</b>	2013	2012
	<b>£m</b>	£m	£m
<b>Funding received:</b>			
Grants	<b>36.1</b>	31.0	29.1
Amounts repayable to the Department for Transport	–	–	(0.1)
(Transfer to) / draw-down from Sovereign Grant Reserve	<b>(0.4)</b>	2.3	5.4
	<b>35.7</b>	33.3	34.4
<b>Income</b>			
Property rental income	<b>3.2</b>	3.0	2.7
Facilities management charges	<b>4.4</b>	3.7	3.5
Recharges for functions and other income	<b>5.8</b>	4.9	3.8
	<b>13.4</b>	11.6	10.0
<b>Payroll costs</b>	<b>(18.2)</b>	(18.3)	(17.5)
<b>Other staff costs</b>	<b>(1.3)</b>	(1.2)	(1.0)
<b>Other expenditure</b>			
Property maintenance	<b>(13.3)</b>	(9.1)	(8.9)
Travel	<b>(4.2)</b>	(4.5)	(5.0)
Utilities	<b>(3.3)</b>	(3.1)	(2.2)
Housekeeping and hospitality	<b>(2.0)</b>	(1.9)	(1.8)
Other	<b>(6.8)</b>	(6.8)	(6.0)
<b>Total net expenditure</b>	<b>(35.7)</b>	(33.3)	(32.4)
<b>Funding for fixed assets and working capital</b>	<b>–</b>	–	2.0

### PERFORMANCE INDICATORS AND OPERATING RATIOS

	<b>2014</b>	2013	2012
<b>Suppliers paid within:</b>			
15 days	<b>51%</b>	59%	53%
30 days	<b>96%</b>	96%	93%
<b>Staff Numbers</b>	<b>431</b>	436	431

## APPENDIX 3: SOVEREIGN GRANT ACCOUNTS DIRECTION

This Accounts Direction is given by HM Treasury in accordance with Sections 2 and 4 of the Sovereign Grant Act 2011.

1. The Royal Household shall prepare accounts for the Sovereign Grant and Sovereign Grant Reserve for the year ending 31 March 2013 and for subsequent years comprising:
  - (a) an Annual Report;
  - (b) a statement of income and expenditure;
  - (c) a statement of comprehensive income and expenditure;
  - (d) a statement of financial position;
  - (e) a statement of changes in equity;
  - (f) a statement of cashflows; and
  - (g) a statement of the reserve fund,including such notes as may be necessary for the purposes referred to in the following paragraphs.
2. Each of the said accounts shall be prepared on the historical cost basis and give a true and fair view of the income and expenditure, total recognised gains and losses and cash flows for the financial year, and state of affairs as at the end of the year.
3. Subject to this requirement the accounts shall be prepared in accordance with the requirements of the Government Financial Reporting Manual (FReM) insofar as these are appropriate to the Sovereign Grant and are in force for the financial year for which the financial statements are to be prepared.
4. The application of the requirements of the FReM, the Companies Act 2006 (and where applicable Companies Act 1985) and other disclosure requirements is given in Schedule 1 attached.
5. This direction shall be reproduced as an appendix to the accounts.

**Paula Diggle**

Treasury Officer of Accounts

7 June 2013

# SCHEDULE 1: ACCOUNTING AND DISCLOSURE REQUIREMENTS

## **Companies Act 2006 and Companies Act 1985 (“The Acts”)**

1. The disclosure exemptions permitted by the Acts and any Schedules or Regulations thereto shall not apply to the Sovereign Grant accounts unless specifically approved by the Treasury.
2. The Acts require certain information to be disclosed in a Directors’ Report. To the extent that it is appropriate, information relating to the Sovereign Grant and Sovereign Grant Reserve shall be contained in the Operating and Financial Review for the financial year, which shall be signed and dated by the Keeper of the Privy Purse or other proper officer.
3. The Royal Household shall take into consideration the requirements of The Acts as they apply to non-quoted companies (to the extent they can be applied to the circumstances of the Sovereign Grant).
4. When preparing the statement of comprehensive income for the Sovereign Grant accounts, the Royal Household shall have regard to the requirements of the profit and loss account Format 2 as prescribed in Schedule 4 to the Companies Act 1985 and for periods beginning after 6 April 2008, the subsequent re-enactment.<sup>1</sup>
5. When preparing the statement of financial position for the Sovereign Grant accounts the Royal Household shall have regard to the balance sheet Format 1 prescribed in Schedule 4 to the Companies Act 1985 and for periods beginning after 6 April 2008 the subsequent re-enactment. The balance sheet totals shall be struck at “Net Assets” and signed and dated by the Keeper of the Privy Purse.
6. Assets held in right of the Crown shall not be recognised within the Sovereign Grant, although expenses relating to their use and maintenance shall be included.
7. The Sovereign Grant accounts are not required to provide the additional historical cost information prescribed in paragraph 33(3) of Schedule 4 to the Companies Act 1985 and for periods beginning after 6 April 2008, the subsequent re-enactment.

## **Financial Reporting Manual (FReM)**

8. The following exceptions to the requirements of the FReM are appropriate to the Royal Household and have received the consent of the Treasury:
  - (a) Funding received in respect of the Sovereign Grant (and any draw down from the Sovereign Grant Reserve) is not required to be taken to Reserves but may be recognised in the Statement of Income and Expenditure in the year in which received;
  - (b) The FReM interpretation of IAS 16 for the public sector context that requires all tangible non-current assets to be carried at valuation at the reporting period need not apply. The provisions of IAS 16 relating to measurement of tangible fixed assets at cost and valuations by class of asset may therefore be applied in order to give a true and fair view.

<sup>1</sup> Contained in the Statutory Instrument SI 2008 No. 410 “The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008” which came into force on 6 April 2008. The provisions of Schedule 4 to the Companies Act 1985 remain in force for accounting periods beginning before that date.

### **Other disclosure requirements**

9. The Annual Report and accounts shall, inter alia:

- (a) State that the accounts of the Sovereign Grant and Sovereign Grant Reserve have been prepared in accordance with this Accounts Direction;
- (b) Include a Statement of the Keeper of the Privy Purse financial responsibilities in respect of the Sovereign Grant;
- (c) Include a Governance Statement which should refer to compliance with The Sovereign Grant Act 2011 or the provisions of the Royal Household's Framework Agreement with the Treasury as appropriate;
- (d) Include a Remuneration Report for those members of the Royal Household whose remuneration is funded from the Sovereign Grant.

