



**The Sovereign Grant
and
Sovereign Grant Reserve**
*Annual Report and Accounts
2015-16*



SOVEREIGN GRANT ACT 2011

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and
Sovereign Grant Reserve**
Annual Report and Accounts
2015-16

*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 St Martin-in-the-Fields in London for a service of commemoration marking the 70th anniversary of VJ day.

Photograph provided courtesy of PA Images.

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THE SOVEREIGN GRANT

The Sovereign Grant Act 2011 came into effect from 1 April 2012 and consolidated the funding provided to support the official duties of The Queen and maintain the Occupied Royal Palaces¹. Until 31 March 2012, funding 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 2013-14 amounted to £267.1 million thereby producing a Sovereign Grant of £40.1 million for 2015-16.

Official expenditure met by the Sovereign Grant in 2015-16 amounted to £39.8 million (2014-15: £35.7 million) an increase of £4.1 million (11.5%) in absolute terms compared to the previous year mainly due to an increase in expenditure on property maintenance and major projects. The equivalent of the excess of the Sovereign Grant and other income over expenditure of £0.3 million in 2015-16 was transferred to the Sovereign Grant Reserve (2014-15: £2.2 million). Expenditure met by the Sovereign Grant in 2015-16 includes £3.1 million of VAT (2014-15: £2.3 million).

¹ The Occupied Royal Palaces are Buckingham Palace, St James's 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 countries¹).

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 Prerogative² 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 as 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.

¹ 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.

² 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 and Royal Ascot Week;
- Anniversaries marked over the course of The Queen's reign – Silver, Golden and Diamond Jubilees, Coronation and family anniversaries to which people can relate - Diamond Wedding Anniversary etc;
- The Queen's impressive personal continuity – She 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 96,000 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 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:

- 232,000 congratulatory telegrams to centenarians on their 100th birthdays;
- 710,800 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 over 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.

Members of the Royal Family are supported in undertaking their official engagements by Her Majesty's Lord-Lieutenants who are responsible for the organisation of all Royal visits to their county and who make sure that The Queen's Private Office is kept informed about local issues relating to their area. Lord-Lieutenants are also responsible for the presentation of decorations where the recipient cannot attend an investiture.

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.

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 presented to both Houses of Parliament annually, copies of which are available on-line at 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 Royal Collection Trust, a registered charity, from visitor admissions to the Occupied Palaces and related activities. Royal Collection Trust receives no funding from the Government or the National Lottery. Around seven million people saw items from the Royal Collection in royal palaces during 2015-16 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 Royal Collection Trust, copies of which are available on-line at www.royalcollection.org.uk.

Further information is available on-line at www.royal.uk

PERFORMANCE REPORT

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 business-like 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.

Property Maintenance and Major Projects

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, and providing appropriate and well-focused training. A small specialist team of staff is responsible for planning and supervising the property maintenance and major projects 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 Historic England, and the use of contractors with appropriate experience;
- A programme of regular checks, tests and inspections;
- Condition assessments recorded on a web-based system originally developed by the Defence Infrastructure Organisation that assists 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;
- New legislation and regulations as they affect, inter alia, construction, fire precautions and Health and Safety; and
- A ten year plan setting out major projects across the Occupied Royal Palaces in England.

All projects with a construction cost of £5,000 or more are individually detailed in an Annual Works Programme showing projected and actual costs, which is updated on a monthly basis. A summary of property maintenance activities undertaken in 2015-16 is given on page 12.

Travel

The Sovereign Grant meets the cost of official journeys undertaken by or in support of The Queen and other Members of the Royal Family. Travel by The Queen, The Duke of Edinburgh, The Prince of Wales and The Duchess of Cornwall and The Duke and Duchess of Cambridge 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 visits 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 Office 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, The Duke of Cambridge, Prince Henry of Wales and the Prime Minister, in addition to the Keeper of the Privy Purse, the Chief Executive of UK Trade and Investment (UKTI), the National Security Advisor 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, helps to support The Queen and other Members of the Royal Family in fulfilling a programme of tours, garden parties, receptions and other official entertaining.

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 the Institute of Leadership and Management, and the 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.

ENVIRONMENTAL SUSTAINABILITY AND SOCIAL RESPONSIBILITY

The Royal Household is committed to achieving its objectives in an environmentally and socially responsible way. Opportunities are being explored throughout the Household, with the aim of embedding environmental sustainability across all areas.

Teams are working collaboratively across the organisation to reduce energy consumption and associated greenhouse gas emissions within the Estate. Measuring and communicating progress and investing to enhance the energy efficiency of the Estate are also key to improving energy performance. The Green Champions' network also supports the Household's commitment through fostering staff awareness and action on environmental issues.

The Royal Household is also supportive of employees who undertake volunteering and charitable activities, recognising the benefit both to the individual involved and for forging links between the Household and the wider community. Employees can take up to five days paid volunteering leave a 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 77.

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 and 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. Every 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 OHSAS 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 (see Accountability Report on page 25). Communicating a positive approach to Health and Safety remains the focus of attention.

OVERVIEW OF THE YEAR

The year ended 31 March 2016 was again busy with The Queen's programme incorporating a number of significant milestones.

PUBLIC ENGAGEMENTS

During the year to 31 March 2016, The Queen undertook 177 official engagements in the United Kingdom whilst The Duke of Edinburgh undertook 184 official engagements. Her Majesty and The Duke of Edinburgh undertook two overseas visits to Germany and Malta, whilst other Members of the Royal Family undertook 62 overseas visits.

Highlights of Her Majesty's schedule included:

- In April, The Queen, accompanied by The Duke of Edinburgh and The Duke of Cambridge laid a wreath at the Cenotaph to commemorate the Centenary of the Gallipoli Campaign;
- In May, The Queen and The Duke of Edinburgh attended a Service of Thanksgiving to commemorate the Seventieth Anniversary of Victory in Europe at Westminster Abbey;
- In June, The Queen, accompanied by The Princess Royal and The Countess of Wessex attended the Centenary Annual General Meeting of the National Federation of Women's Institutes at the Royal Albert Hall;
- In June, The Queen and The Duke of Edinburgh, accompanied by The Duke of Cambridge, The Princess Royal and Vice Admiral Sir Tim Laurence visited Runnymede on the occasion of the Eight Hundredth Anniversary of the Sealing of Magna Carta;
- In June, The Queen and The Duke of Edinburgh undertook a State Visit to Germany during which they visited Bergen-Belsen concentration camp, where Her Majesty laid a wreath against the Inscription Wall;
- In July, The Queen and The Duke of Edinburgh, with The Duke of Cambridge, The Duke of York, The Earl and Countess of Wessex, The Duke of Gloucester, The Duke of Kent, Prince Michael of Kent and Princess Alexandra, The Hon. Lady Ogilvy witnessed a flypast by the Battle of Britain Memorial Flight and Typhoon aircraft of the Royal Air Force to mark the Seventy Fifth Anniversary of the Battle of Britain;
- In September, The Queen, accompanied by The Duke of Edinburgh opened the Scottish Borders Railway during which Her Majesty made a speech to mark becoming the longest reigning Monarch of the United Kingdom and Commonwealth Realms;
- In October, The President of the People's Republic of China and Madame Peng Liyuan undertook a State Visit to the United Kingdom during which The Queen and The Duke of Edinburgh gave a State Banquet in their honour;

- In November, The Queen, accompanied by The Duke of Edinburgh, The Prince of Wales and The Duchess of Cornwall, opened the Commonwealth Heads of Government Meeting in Malta;
- In February, The Queen visited Crossrail Bond Street. Her Majesty named the Crossrail line the 'Elizabeth Line';
- In March, The Queen, accompanied by The Prince of Wales, President, visited The Prince's Trust Kennington Centre. Her Majesty and His Royal Highness met young people participating in the charity's programme, alumni, and members of staff, and viewed a Digital Workshop demonstration in the Digital Classroom; and
- In March, The Queen, Patron, accompanied by The Duke of Edinburgh, Honorary Fellow, Zoological Society of London, opened Land of the Lions at London Zoo.

PROPERTY MAINTENANCE AND MAJOR PROJECTS

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 increase the Annual Works Programme to a level which will contribute to reducing the backlog in essential maintenance. Since the introduction of the Sovereign Grant in 2012-13, two thirds of the increase in the Sovereign Grant has been allocated to property maintenance and major projects. Despite the increased allocation of funds to property maintenance and major projects, the latest Condition Assessment survey of the Occupied Royal Palaces Estate highlighted that 45% of the Estate was below target condition at 31 December 2015 (31 March 2012: 39%). Changes in the condition of the Estate will continue to be monitored through the regular condition assessment surveys. During the year, work was undertaken to update the 10-year plan setting out major projects across the Occupied Royal Palaces in England which when completed will help to reduce the backlog in essential maintenance.

Expenditure on property maintenance and major projects (including capital expenditure) was £18.0 million in 2015-16, an increase of £4.8 million (36%) compared with the previous year. In addition, £0.3 million has been transferred to the Sovereign Grant Reserve in 2015-16 to meet the cost of major projects in the 10-year plan such as the renewal of Windsor Castle water mains and the reservicing of Buckingham Palace.

Major Projects in the Year

In 2015-16 a total of 229 (2014-15: 166) projects over £5,000 in value were carried out across the Estate. Nine of these projects had a construction works spend in excess of £250,000 in the year and individually accounted for 41% of the total project spend across the whole Estate (2014-15: seven and 45%) 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. During the year £0.6 million (2014-15: £0.6 million) was spent on the removal of asbestos by specialist contractors from locations across the Estate.

Strategy for the Reservicing of Buckingham Palace (£0.6m)

An Options Appraisal for the reservicing of Buckingham Palace was commissioned in order to ensure that the Palace can remain fully capable of supporting the duties of the Sovereign, and Members of the Royal Family, well into the future. The resulting Options Appraisal Report, when combined with other building fabric related works, will contribute to a 'Strategic Outline Business Case' which will inform the Lord Chamberlain's Committee about how such a significant project could be delivered. The analysis will consider the consequential risks and impact, options for decanting, the benefits, the Royal Household programme and an estimated cost for each approach will be completed in 2016-17.

Internal Refurbishment of Administration Building, Royal Mews (£0.4m)

The Administration Building sits at the entrance to the Royal Mews at Buckingham Palace. Works were required in order to relocate the Royal Household's Fire Surveillance team from Buckingham Palace to the Royal Mews where the team also assumed responsibility for access control. These duties were previously undertaken by the Metropolitan Police. The works involved reordering parts of the basement and ground floors to accommodate the Fire Control Room and associated facilities. Works commenced on site in April 2015 and were completed in August 2015.

Internal Refurbishment of Apartment 29a, St James's Palace (£0.5m)

As part of the strategy to seek opportunities to generate income from the Estate, Apartment 29a, St James's Palace was identified as an appropriate property for commercial rental. The works required included the internal redecoration of all rooms, replacement of bathrooms, kitchens, rewiring of structured cabling and installation of carpets and soft furnishings. The works commenced onsite in February 2015 and were completed in July 2015.

North Side Roof Renewal, North Terrace, Windsor (£1.3m)

This project sees the continuation of roof replacements across the Upper Ward at Windsor Castle. Following Phase I (Royal Library in 2014-15), Phase II runs from the Devil's Tower to the Dolls House entrance. Works commenced onsite in April 2014 and were completed with the removal of scaffolding in January 2016. The works required the erection of access scaffolding and a temporary roof to provide a suitable year-round working environment and to protect the exposed roof, following removal of the lead sheeting. The scope of works included the replacement of the existing patched lead coverings; to renew boarding and repair structural timbers; to overhaul and redecorate windows; and to repair and repoint defective areas of stonework. In addition, wrought iron beams that support some structures and winch mechanisms were cleaned of corrosion and protected. Unlike the Royal Library,

this phase encountered considerable asbestos contamination within the roof voids, requiring re-phasing of the roof covering and extensions to the overall programme.

North Side Roof Renewal, State Entrance, Windsor (£0.4m)

The State Entrance spans the North side of the Upper Ward on a North/South axis. Like Phases I & II the roof coverings need to be replaced, starting with the Northern end of the State Entrance, followed by the Southern end. The scope of works will be consistent with previous phases and will address the lead roof coverings, timber boarding, roof access hatches, rain water run off and disposal, and repairs to defective pointing and stonework. The access scaffolding and temporary roof erection commenced on site in January 2016 and the project is expected to take 18 months to complete.

Redecoration of Property Services Office/Support Areas, Windsor (£0.3m)

The work comprised asbestos removal/encapsulation, redecoration, new furniture, IT network extension, kitchen, flooring, small power improvements and lighting upgrades. The reformatted and improved working environment has allowed more open plan working and increased the capacity of the office by the addition of eight new desk positions. The works commenced in early November and were completed in March 2016.

Masonry Repairs, Victoria House, Home Park, Windsor (£0.5m)

Victoria House sits in the Royal Gardens area of the Home Park and was the home of the former Head Gardener for the Royal Estate and now provides accommodation for Household staff. Following a full replacement of the roof coverings, extensive masonry works were identified to the brick/stonework including the high level parapet walls. The scope of works included the lifting and resetting of the roof level coping stones, replacement and stabilisation of the quoin stones, raking out and repointing of all elevations, replacement of the string courses, conservation of existing and carving of new finials to adorn the gable ends and structural interventions to assist in the installation of the new windows throughout the property.

Roof Repair, Windsor Hall, Home Park, Windsor (£0.8m)

Windsor Hall is situated adjacent to the Royal Gardens area in the Home Park and provides accommodation for Household staff. Its tiled slate roof had come to the end of its expected life and required full replacement. The scope of the works involved the erection of an access scaffold and temporary roof to provide a weather tight working environment, replacement of all Westmorland slates, replacement of some original ridge tiles, stabilisation works to the main chimney, refurbishment of snow guards, gutters and downpipes. Works commenced onsite in October 2015 and were completed in March 2016.

**Construction of Aircraft Hangar for The Queen's Helicopter Flight, RAF Odiham
(£0.7 million)**

The project comprised the construction and completion of a new two-bay helicopter hangar for The Queen's Helicopter Flight, within the secure perimeter of RAF Odiham. Works commenced onsite in late 2014-15, with completion in July 2015. The hangar contains workshop facilities to allow for maintenance of the aircraft, offices, mess room and a briefing room.

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 £5,000, 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 £4.3 million in 2015-16 (2014-15: £3.8 million).

TRAVEL

Over 3,000 official engagements were undertaken across the United Kingdom and overseas by Members of the Royal Family during the year to 31 March 2016. These involved a significant amount of travel that needed to be undertaken in a way which met efficiency and security requirements and minimised disruption to the public. A list of the 57 (2014-15: 63) journeys undertaken by Members of the Royal Family and their staff during 2015-16 which had travel costs of £10,000 or more, met from the Sovereign Grant, is available on the Monarchy website at www.royal.uk. In addition to The Queen's visits to Malta (£64,000) and Germany (£40,000), the principal overseas visits during the year were undertaken by:

- The Prince of Wales and The Duchess of Cornwall – visit to Croatia, Serbia, Montenegro and Kosovo (£94,000);
- The Prince of Wales – visit to Turkey (£75,000);
- Prince Henry of Wales – visit to Lesotho and South Africa (£38,000);
- The Prince of Wales and The Duchess of Cornwall – visit to Malta (£37,000);
- The Princess Royal – visit to Cyprus (£37,000);
- Prince Henry of Wales – visit to Nepal (£33,000);
- The Princess Royal – visit to Bosnia and Herzegovina (£32,000);

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.

ENVIRONMENTAL SUSTAINABILITY

Considerable emphasis is placed on the environmental impact of activities and energy conservation, as well as saving costs and reducing environmental pollution.

The Royal Household recognises that its operations and activities have an impact on the environment, including:

- Travel (particularly overseas travel on behalf of the Government);
- Heating and lighting residences;
- Water consumption;
- Waste generation; and
- Procurement.

The Royal Household is committed to reducing this impact and its associated costs through embedding environmental sustainability across the organisation. An updated Energy Management Policy and Strategy was approved by the Lord Chamberlain's Committee in November 2014, which sets out the Household's commitment to reduce energy consumption, costs and associated greenhouse gas emissions across the Estate. Progress made during 2015-16 included:

- Installation of sub-meters at Buckingham Palace and Windsor Castle;
- Continuing the installation of LED lighting at Buckingham Palace, St James's Palace, Windsor Castle and the Palace of Holyroodhouse;
- Replacement of the main boiler control panel and various local heating control upgrades at Windsor Castle;
- Securing a fixed price gas contract for the Royal Household estate, bringing an estimated £1.1 million in savings over the next four years;
- Delivery of various education and awareness-raising activities, including 'Offtober' and 'The Big Christmas Switch Off' energy saving campaigns and team workshops.

Greenhouse Gas Emissions

| | 2016 (tCO ₂ e) | 2015 (tCO ₂ e) | % change |
|--|------------------------------|------------------------------|--------------|
| Scope 1: Natural gas and owned/leased vehicles | 4,489 | 4,497 | -0.2 |
| Scope 2: Purchased electricity | 1,993 | 2,139 | -6.8 |
| Total Scope 1 & 2 | 6,482 | 6,636 | -2.3 |
| Scope 3: Business travel | 1,101 | 1,694 | -35.0 |
| Scope 3: Electricity transmission & distribution | 165 | 187 | -11.8 |
| Total Scope 3 | 1,266 | 1,881 | -32.7 |
| Total Scope 1 – 3 | 7,748 | 8,517 | -9.0 |

All emissions have been calculated using the relevant carbon conversion factors from DEFRA. 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.

Energy Consumption

Total energy consumed across the Estate in 2015-16 was 29.3 million kWh (2014-15: 29.9 million kWh), a 2.0% reduction on 2014-15.

| kWh (m) | 2016 | 2015 | % change |
|--|-------------|-------------|-------------|
| Gas | 21.5 | 21.7 | -0.9 |
| Electricity – National Grid | 4.3 | 4.3 | 0.0 |
| Electricity – Combined Heat and Power | 2.5 | 2.6 | -3.8 |
| Electricity – Hydro-electric Scheme at Romney Lock | 1.0 | 1.3 | -23.1 |
| | 29.3 | 29.9 | -2.0 |

Gas

In 2015-16, total gas use across the Household was approximately 21.5 million kWh (2014-15: 21.7 million kWh), a decrease of 0.9%. The Combined Heat and Power (CHP) plant in London provides hot water during the summer, allowing the main boilers to be switched off and thereby reducing gas consumption. Boiler control upgrades at Windsor Castle have also enabled reductions in gas consumption this year.

Electricity

In 2015-16 approximately 7.8 million kWh (2014-15: 8.2 million kWh) were consumed across the Estate, a 4.9% reduction. The CHP units located at Buckingham Palace and Windsor Castle produced 2.5 million kWh electricity for use at these sites (2014-15: 2.6 million kWh). The hydro-electric scheme at Romney Lock in Windsor produced 1.0 million kWh of renewable electricity for use at Windsor Castle (2014-15: 1.3 million kWh). Hydroelectricity output reduced this year due to equipment maintenance and low river levels.

Water

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. In 2015-16, approximately 161,000 cubic metres of water from public suppliers was used across the Estate (2014-15: 148,000 cubic metres).

Waste

In 2015-16, a total of 1,312 tonnes of waste was produced across the Household (2014-15: 1,329 tonnes), a 1.3% reduction. The Royal Household is taking action to reduce waste and increase reuse and recycling across the organisation.

| Tonnage (t) | 2016 | 2015 | % change |
|---------------------------------|---------------------|--------------|-------------|
| Waste recycled | 795 | 818 | -2.8 |
| Waste to landfill/ incineration | 517 | 511 | 1.2 |
| Total waste | <u>1,312</u> | <u>1,329</u> | <u>-1.3</u> |

Sustainable procurement

The Royal Household is committed to embedding environmental sustainability within procurement, through the specification of goods and services, supplier selection criteria and contract management. Organisations applying for Royal Warrants are assessed against both environmental and social criteria and procurement guidance enables staff to consider these aspects within procurement across the Household.

INCOME GENERATION

Income supplementing the Sovereign Grant amounted to £13.9 million (2014-15: £13.3 million). Property rental income increased by £0.1 million. Facilities management charges increased by £0.6 million, largely due to an increase in average visitor numbers over the last three years at Windsor Castle in addition to inflationary increases. Recharges and other income decreased by £0.1 million.

INFORMATION SECURITY AND MANAGEMENT

Work has been completed on a risk appetite methodology in support of the revised Information Risk Register. The first phase of Information Assurance awareness training through the Household's new Learning Management System was introduced in early 2016 and will be completed by Autumn 2016.

The Royal Household obtained certification to the government's new Cyber Essentials standard in 2015, and has completed several business continuity exercises to test its IT systems' resilience.

The Royal Household has not suffered a loss of protected personal data during 2015-16 (2014-15: nil) and consequently has had no need to report such an incident to the Information Commissioner's Office.

A full Cyber Security review was completed in November 2015 with a number of agreed actions for implementation during 2016-17. In line with the Cabinet Office guidance on management of bulk personal data, an action plan has been developed and new data deletion processes will be implemented in 2016-17.

FUTURE DEVELOPMENTS

Staff

In order to deliver the planned increases in property maintenance and major projects expenditure over the next 10 years in a cost effective way, additional resource will be required. Accordingly, Property Services headcount is planned to increase by eight posts in 2016-17. The increase will include additional operational staff to support compliance with ongoing statutory obligations and the establishment of a central procurement function to support property managers to deliver value for money from an increasing property maintenance and major projects budget.

Human Resources

The Human Resources (HR) strategy for 2016-17 underpins departmental plans and takes into account feedback gained through the Investors in People reassessment and staff engagement survey. The focus on utilising technology to streamline and improve HR services will continue. The e-learning programmes have initially focused on compliance training, but will be extended during 2016-17. The online recruitment system, which was upgraded in 2015-16, will be further developed during 2016-17, and the use of social media for recruitment will continue to be a focus, aligned to the newly revised Royal website recruitment pages.

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 aspires to offer London and Regional Living wage as a minimum to staff who are not benefiting from a subsistence package that includes housing. Leadership and management development remains a key element of the HR plan. Specific objectives for 2016-17 will be the development of masterclasses for senior managers and directors. The in-house accredited leadership coaching programme will be offered to a wider group of managers, and a new emerging leadership programme will be introduced, aimed at developing a pipeline of future talent.

Property Maintenance and Major Projects

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 2016-17 will enable the Annual Works Programme to be expanded to continue to address the backlog in essential maintenance and will include the following projects:

Condition or Priority Projects

State Dining Room, Buckingham Palace

The State Dining Room ceiling at Buckingham Palace requires an unplanned yet significant scheme to stabilise and repair elements of the roof structure. This is following discovery of a defective roof truss member in late 2015. Emergency stabilisation works were commissioned and a scaffold crash deck installed, making the ceiling stable and safe. During 2016-17 the ceiling will require structural and conservation repairs in order to return it to full operational use.

Renewal of Water Mains, Windsor

Over 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. Concerns over future maintenance of the plant and the wider infrastructure supporting the distribution of water to the Castle and the Home Park have led to discussions with Thames Water to determine options for future water supply. As a result of extensive studies it is expected that the renewal of water mains throughout the Home Park and the

Castle grounds will be required. Further studies and detailed designs will be required to inform the most resilient approach, and help to define the programme and budget.

Replacement of Services at Buckingham Palace

In 2015-16 a series of detailed surveys and studies were undertaken to help develop an Options Appraisal report. This report, and Strategic Outline Business Case, which will be completed in 2016-17, will detail the costs, options, programme and benefits of the reservicing of Buckingham Palace. Such a complex project requires careful consideration including the selection of a preferred option from a potential range of delivery solutions.

External Fabric Repairs

The long-term programme of external fabric repairs at Buckingham Palace and Windsor Castle is extensive. In 2016-17, the roof areas to the back of the Royal Mews at Buckingham Palace will be renewed, with work to lead and slate roofs over the so-called 'bridging building' and new asphalt to the areas along Lower Grosvenor Place. At the same time, the lead and tiled roof over the garages will be renewed. Completion of these roofs will finish the long term programme of roofing in the Royal Mews which commenced in 2011.

Another priority at Buckingham Palace is the renewal of the outer roof light over the Picture Gallery. In 2015-16, a feasibility study was prepared, covering the logistics of the project and the impact upon Palace operations, such as functions, investitures and State Visits. Part of the study includes the potential to represent the Picture Gallery. The complex nature of the works require detailed coordination with the project to replace services at Buckingham Palace.

Meanwhile, the renewal of ageing lead roofs in the Upper Ward at Windsor Castle will continue, with the State Entrance on the north side. This will be followed by the roof over the Grand Staircase, then the south side of the State Entrance combined with the Waterloo Chamber, thereby completing the renewal of roofs to the whole of the north side of the Upper Ward by 2018-19, a project which commenced in 2012-13.

Extensive work will be carried out to the doors and windows of the Orangery, Windsor Castle, which are Georgian pattern and contained in Gothic arches. The existing doors will be removed on a phased basis to a workshop to allow complete replacement and overhaul of ironmongery, while the fixed panels above will be repaired in situ. In addition, the Orangery roof requires investigation and replacement of asphalt roof coverings to prevent the ingress of water, which is having a detrimental impact to the roof structure.

York House and Apartment 30a, St James's Palace

York House is situated at the north side of the St James's Palace estate and houses offices for Royal Collection Trust and Central Chancery. The third and final phase of refurbishment works is required in the western end of York House, following previous phases completed in the early 2000s. Design and survey works will be required to inform tender documents for the full internal refurbishment, which focus predominantly on the replacement of wiring, removal of asbestos and structural stabilisation works. In order to facilitate the works,

Apartment 30a at St James's Palace has been refurbished as offices in order to provide suitable decant space for those vacating York House, the Central Chancery.

V&A Mausoleum, Frogmore, Windsor

Design and survey works will continue to inform tender documents for the external repair of the Victoria and Albert Mausoleum. By the summer of 2016-17 a preferred design solution and tender package will be ready in order to seek detailed costs to undertake the works. The work required includes renewal of the copper roofs, installation of permanent improvements to the gutters and downpipes, drainage improvements, paving and internal repairs, including the decorative painted surfaces.

Maintenance Projects

Some significant maintenance projects will be undertaken in 2016-17 to address central plant coming to the end of its operational life, through the replacement of Air Handling Units across the State and Private Apartments at Windsor Castle. At Buckingham Palace, the programme of rewiring the chandeliers will continue with the last two of the highly decorative crystal fittings in the Ballroom. In addition, £1 million will be spent on the ongoing programme of external decoration across the Estate.

Operational Projects

Upgrade of Pantry Areas

Having completed the refurbishment of the State Glass Pantry in 2014-15, it is proposed to refurbish the Ballroom Landing Pantry and Upper Vault to address operational and Health and Safety concerns. It is expected that the existing cupboards and server counters will be overhauled or replaced, that flooring will be renewed and that ventilation will be improved.

Environmental Sustainability

Departmental Energy and Environment Action Plans for 2016-17 will continue to focus on reducing energy consumption across the Household. This will include further staff engagement through the Green Champions' Network, more detailed energy monitoring through the installation of further sub-meters, plant replacement, further roll out of LED lighting and exploring the potential for additional onsite low carbon and renewable energy generation across the Estate. Progress is reported annually to the Lord Chamberlain's Committee.

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.

Going Concern

After making enquiries, the Lord Chamberlain's Committee has a reasonable expectation that the Sovereign Grant, subject to the outcome of the Options Appraisal Report for the reservicing of Buckingham Palace, will provide adequate resources to enable The Queen to continue to undertake Her Official Duties for the foreseeable future.

Events since 31 March 2016

The United Kingdom is set to hold a referendum on 23 June 2016 on whether or not to remain a member of the European Union (EU). These accounts were certified on 9 June 2016, prior to the referendum being held. The outcome of the referendum is not however expected to have a significant impact on these financial statements.

Sir Alan Reid

Keeper of the Privy Purse

3 June 2016

ACCOUNTABILITY REPORT

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 Grant¹.

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

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 - Vice Admiral Tony Johnstone-Burt
- Comptroller, Lord Chamberlain's Office - Lt Col. Sir Andrew Ford
- Director, Royal Collection Trust - Jonathan Marsden

¹ A copy of the Sovereign Grant Framework Agreement with HM Treasury is available on-line at www.royal.uk

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 (resigned 30 Sept 2015)
- Clive Alderton (appointed 1 Oct 2015)

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

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.

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

The Sovereign Grant management accounts and the minutes of the Sovereign Grant Planning Committee 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 and performance in order to inform decisions which may result in variations to the annual operating plan.

The Keeper of the Privy Purse (as Accounting Officer) delegates authority to the executive members of the Lord Chamberlain's Committee excluding the Director of the Royal Collection, to make decisions and incur expenditure in accordance with internally set delegation limits.

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

- Sovereign Grant Planning Committee – The Sovereign Grant Planning Committee comprises senior management from key operational and strategic sections of all Royal Household departments and includes representatives from Royal Collection Trust and The Prince of Wales' Household. The Sovereign Grant Planning Committee met eleven times during 2015-16 (2014-15: eight). The activities of the Sovereign Grant Planning Committee include reviewing the monthly Sovereign Grant management accounts, reviewing the Budget and Three-Year Plan (2016-19), monitoring progress on major projects and the allocation of resources to deliver projects on time and on budget and reviewing business cases which have a significant operational impact and require an assessment of the priorities for Sovereign Grant funds. The Sovereign Grant Planning Committee is chaired by the Deputy Treasurer to The Queen who reports to each meeting of the Lord Chamberlain's Committee;

- Security Risk Management Board – The Royal Household Security Risk Management Board met twice during 2015-16 (2014-15: twice) to consider reports from the Information, Personnel and Physical Security Working Groups. The Security Risk Management Board is chaired by the Deputy Private Secretary who reports to the Lord Chamberlain's Committee after each meeting;
- Aviation Safety Review Board – The Royal Household Aviation Safety Review Board met once in 2015-16 (2014-15: once) to consider risks assessed by the Aviation Safety Management Committee on Fixed Wing and Helicopter travel. The Board is chaired by the Comptroller, Lord Chamberlain's Office, and comprises senior management from within the Household, including representatives from Health and Safety and the participation of external contractors.
- Ten-Year Plan Steering Group – The Ten-Year Plan Steering Group meets quarterly and is accountable to the Lord Chamberlain's Committee in overseeing the refurbishment and capital development projects principally at Buckingham Palace, Windsor Castle and The Palace of Holyroodhouse to ensure the effective co-ordination between Sovereign Grant funded projects and those projects funded by the Royal Collection Trust. The Ten-Year Plan Steering Group is chaired by the Master of the Household. It receives and reviews regular reports from project working groups covering progress against all project plans for the Occupied Royal Palaces.
- Buckingham Palace Reservicing Programme Board – The Buckingham Palace Reservicing Programme Board meets monthly. Its primary responsibility is to oversee the delivery of the strategic plan for renovating and reservicing the infrastructure at Buckingham Palace. The Buckingham Palace Reservicing Programme Board is chaired by the Master of the Household who is also the Senior Responsible Owner for the reservicing of Buckingham Palace project and its members include representatives from HM Treasury and the Major Projects Authority, Cabinet Office.

The terms of reference for each of the boards and committee are approved by the Lord Chamberlain's Committee.

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.

Meetings of the Audit Committee are attended by the Head of Audit Services, the Keeper of the Privy Purse, the Master of the Household, 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:

- Review and challenge of 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 management's and internal audit's reports on the adequacy of arrangements for contracting in the most economical and efficient manner for the supply of all services, consistent with the appropriate safety and security requirements;
- Review of effectiveness of internal and external audit and agreement of audit plans;
- Monitoring management's responsiveness to internal audit findings and recommendations;
- Review of the Royal Household's risk management and assurance processes; and
- Review of specific areas to assess and monitor progress in developing and enhancing internal control (e.g. property maintenance and major projects governance, 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.

Due to the number of property refurbishment projects that will be carried out at the Occupied Royal Palaces over the next ten years, it was agreed that the Audit Committee membership should be increased to include knowledge of Heritage and Property projects. On 1 July 2015, Mr Malcolm Reading joined the Audit Committee for a term of three years.

Members of the respective committees have a broad range of experiences relevant to the Royal Household’s activities:

| Lord Chamberlain’s Committee | Meetings attended | Audit Committee | Meetings attended |
|-------------------------------------|--------------------------|---------------------------|--------------------------|
| The Rt Hon. The Earl Peel (Chair) | 9/9 | Sir David Tweedie (Chair) | 3/3 |
| The Rt Hon. Sir Christopher Geidt | 9/9 | Mr John Coombe | 3/3 |
| Sir Alan Reid | 8/9 | Ms Leslie Ferrar | 2/3 |
| Vice Admiral Tony Johnstone-Burt | 9/9 | Mr Malcolm Reading | 1/2 |
| Lt Col. Sir Andrew Ford | 9/9 | | |
| Mr Jonathan Marsden | 9/9 | | |
| Brigadier Archie Miller-Bakewell | 9/9 | | |
| Mr William Nye | 3/4 | | |
| Mr Clive Alderton | 4/5 | | |

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 Director of Royal Travel, Director of Security Liaison, and the Director of IT and Telecoms. These specialists provide advice on the management of the risks falling within their areas of responsibility and provide updates to the Sovereign Grant Planning Committee and the Lord Chamberlain’s Committee when required.

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; and
- 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, Audit Committee, Sovereign Grant Planning 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 and external audit recommendations ensuring that management establish appropriate priorities;
- Assurance on specialist areas such as IT and Physical Security, Property Maintenance statutory compliance and Travel Safety 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 bi-monthly meetings with HM Treasury; and

- 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 subsidiary boards and committees and other sources in order to provide additional confirmation that risk is being properly managed throughout the Royal Household.

The Lord Chamberlain's Committee's Performance

The Lord Chamberlain's Committee and the Sovereign Grant Planning Committee are committed to undertaking a formal review of their effectiveness every three years. The Lord Chamberlain's Committee's most recent review was in July 2013 and included eight recommendations for further improvement, all of which have been actioned. The Sovereign Grant Planning Committee undertook its first review in May 2015 and included five recommendations for further improvement, all of which have been actioned.

The Lord Chamberlain meets each Head of Department annually to review individual performance and seek feedback on his own performance as Chairman.

Governance Activities during the year

A programme of internal audit work for the twelve month period beginning 1 April 2015 was agreed by the Audit Committee at its meeting held on 23 March 2015.

The Audit Committee reviews internal audit reports at each meeting. At the meeting held on 14 March 2016, the Audit Committee reviewed a progress report on internal audit work undertaken during the full year, containing the scope and findings of internal audit work undertaken compared to the original plan.

The annual report, from the Head of Audit Services, objectively examined, evaluated and reported on the control environment within the Sovereign Grant and provided an opinion about the adequacy of the systems and processes in place. In particular, reports were received on business continuity and management of property contracts. Further work is being undertaken to enhance controls in these areas which include the clarification of interdependencies between departmental business continuity plans and reviews of regular maintenance contracts. On the basis of the audit work undertaken during the 2015-16 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice.

As required under professional standards, an independent external assessment of the internal audit function was carried out in October 2015. This included considering the team's conformance to HM Treasury's Internal Audit Quality Assessment Framework, benchmarking the function's activities against best practice and assessing the impact of internal audit on the organisation. The report was considered by the Audit Committee at its meeting held on 23 November 2015. The report concluded that Audit Services 'has a high profile, with an established, sound methodology and practices and, for a small team, has a good range of experience and skills, supplementing these with some outsourcing. Conformance with the framework of professional internal audit practice is high and places the department in the top quartile of internal audit functions we have reviewed'. Some

recommendations were made to further enhance the function which will be progressed during 2016-17.

Projects

The Lord Chamberlain's Committee has regularly reviewed progress on projects which contribute to the Household's risk management. These projects include the replacement of secure mobile voice and data communications, the Wide Area Network and the introduction of Voice over Internet Protocol technology.

Staff

The Lord Chamberlain's Committee reviewed the results of the staff survey undertaken in 2015-16 and evaluated any impact for the Household. Action plans drawn from the conclusions of the survey will be the responsibility of the Heads of Department. The Household measures its performance in relation to its employment practices against external benchmarks, and has been accredited as achieving Investors in People standards.

Cost Allocation

The Royal Household's Treasury Finance Manual sets out the basis for the allocation of costs for services undertaken by Household departments funded by the Sovereign Grant on behalf of Royal Collection Trust and Other Households. The Audit Committee reviewed the Treasury Finance Manual and the changes in cost allocation proposed for 2016-17 and provided assurance to the Lord Chamberlain's Committee as to the reasonableness of the proposed changes.

Accountability Arrangements

Disclosure Policy

The Royal Household requires that all employees adopt and maintain the highest standards of honesty and integrity, in order to safeguard the resources and sensitive information for which they are individually and collectively responsible. The Royal Household has a disclosure procedure in place to enable employees to report any concerns that they may have in respect to resources and information for which they have a responsibility e.g. concerns relating to suspected fraud, theft, bribery, Health and Safety at work, damage to the environment, or leaking of sensitive information. The Royal Household Disclosure Policy sets out the means by which serious concerns can be appropriately escalated from within the organisation and be brought to the attention of Human Resources, Security Liaison and Audit Services.

Concern at Work Policy

It is important for the health and safety of all employees and the reputation of the Royal Household that any concerns regarding the behaviour of workers is reported and properly dealt with. The Household therefore encourages all individuals to raise any concerns that they may have about the conduct of others. The Concern at Work policy sets out the way in

which individuals may raise any concerns that they have and how those concerns will be dealt with.

Declaration of Interests and Receipt of Gifts and Hospitality

The Royal Household endorses the Nolan Principles of public life and is active in maintaining high standards of conduct in relation to its employees and officials. The fundamental principle that governs the acceptance of gifts and hospitality by employees of the Royal Household is that no gifts, hospitality or services should be accepted from anyone which would, or would appear to, place an employee under any obligation to the donor.

Principal Household Risks

The Lord Chamberlain's Committee has assessed that the principal risks currently faced by The Royal Household are as shown below.

Operational Risks

| | |
|------------------------|---|
| Risk: | Delays or increased costs in completing the projects set out in the 10-year property maintenance and major projects plan. |
| Impact: | An increase in the proportion of the Estate below target condition and increased risk of failure of facilities. |
| Principal mitigations: | Annual review and update of property maintenance and major project programme. Established project management framework. Establishment of project boards for larger projects such as the reservicing of Buckingham Palace. |
| Residual risk rating: | Medium |

Financial Risks

| | |
|------------------------|--|
| Risk: | Funds are not used for the appropriate purpose. |
| Impact: | Loss of funding for legitimate purposes. Reputational risk with suppliers, Parliament and the public. |
| Principal mitigations: | Robust annual budgeting process. Robust delegated authority and payment processing controls. Detailed monthly Management Accounts review process. Adherence to guidance in 'Managing Public Money'. Programme of review by Audit Services. |
| Residual risk rating: | Low |

People Risks

| | |
|------------------------|---|
| Risk: | Inability to recruit, retain and develop the right staff with necessary experience, resulting in underperformance across key areas of the Household. Key staff are lost without adequate succession planning thereby impacting the Household's ability to meet its objectives. |
| Impact: | Loss of key talent or the inability to attract staff with the right experience would have an adverse impact on the Household's ability to provide effective support to The Queen and other members of the Royal Family. |
| Principal mitigations: | Strong recruitment processes. Succession planning actively considered. Effective learning and development plans in place across the Household. |
| Residual risk rating: | Low |

Travel Risks

| | |
|------------------------|---|
| Risk: | Failure to maintain and operate aircraft utilised by the Royal Household to the highest safety standards. |
| Impact: | Fatal accident or critical injury of a member of the Royal Family, member of staff or the general public. |
| Principal mitigations: | Implementation of a robust Air Safety Management System which covers travel by helicopter and fixed wing aircraft. Regular external audit of the Air Safety Management System. Aviation Safety Management Board regularly reviews compliance with the Air Safety Management System. |
| Residual risk rating: | Low |

Health and Safety Risks

| | |
|------------------------|---|
| Risk: | A significant Health and Safety incident or breach on the Estate results in serious harm to a member of the Royal Family, a member of staff, supplier, tenant or guest/visitor. |
| Impact: | Injury, loss of reputation, penalties and/or legal action against the Household or members of staff. |
| Principal mitigations: | Comprehensive and regular reporting to the Lord Chamberlain's Committee. A structured programme of Health and Safety training, risk assessment and monitoring of compliance. Promotion of Health and Safety culture throughout the Household. |
| Residual risk rating: | Low |

Policy Risks

| | |
|------------------------|---|
| Risk: | Failure to be responsive to changes in public policy. |
| Impact: | Failure to meet the Royal Household's objectives. |
| Principal mitigations: | Regular liaison with the Cabinet Office, HM Treasury, Home Office, and Foreign and Commonwealth Office. |
| Residual risk rating: | Low |

Information Risks

| | |
|------------------------|--|
| Risk: | Inappropriate access to Royal Household data. |
| Impact: | Loss of reputation, penalties and/or legal action against the Household or members of staff. |
| Principal mitigations: | Comprehensive and regular reporting to the Lord Chamberlain's Committee. A structured programme of Information Assurance training and monitoring of compliance. Promotion of Information Assurance awareness culture throughout the Household. |
| Residual risk rating: | Low |

Security risk is not included above as Sovereign Grant expenditure excludes the cost of physical security.

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
3 June 2016

REMUNERATION AND STAFF REPORT

Executive Remuneration

The salaries of the Lord Chamberlain's Committee are 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>Start Date</i> | Total | | Salary | | Pension | |
|----------------------------------|-----------------------|--------------|------|-------------|------|-------------|------|
| | | Remuneration | | | | Payments | |
| <i>Year to 31 March</i> | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| £'000 | | | | | | | |
| The Earl Peel | Oct 06 | 99 | 99 | 86 | 86 | 13 | 13 |
| Sir Christopher Geidt | Sep 02 | 186 | 165 | 162 | 143 | 24 | 22 |
| FTE salary: 162 (2015: 156) | | | | | | | |
| Sir Alan Reid | Jul 02 | 203 | 226 | 173 | 192 | 30 | 34 |
| FTE salary: 212 (2015: 209) | | | | | | | |
| Vice Admiral Tony Johnstone-Burt | Nov 13 | 148 | 140 | 129 | 122 | 19 | 18 |
| Sir Andrew Ford | Oct 05 | 139 | 137 | 121 | 119 | 18 | 18 |

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. Two members of the Lord Chamberlain's Committee, Sir Christopher Geidt and Tony Johnstone-Burt 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.

Jonathan Marsden, Director, Royal Collection Trust, 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 Royal Collection Trust but do not receive any remuneration for their services.

Staff Policies

The Royal Household's employment policies and practices have been developed to support the Household's objectives and business plans, and to encourage a motivated, adaptable and skilled workforce. As evidence of this commitment and to measure its performance against an external standard, the Royal Household achieved Investors in People (IiP) accreditation and is working towards re-accreditation in 2016-17.

The Household 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. Diversity of both applicants and employees is promoted, with candidates sought from all sections of the community. Job vacancies are advertised across a range of media, including online through websites, job boards and the Royal Household's social media channels. This ensures the broadest possible range of candidates, and competency based recruitment enables selection decisions to be made on standardised criteria. 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 have included 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 and family friendly policies as well as various health and fitness programmes. 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 the 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. The Royal Household has a management forum attended by representatives of each department, and staff are kept informed on progress made by the Royal Household and are encouraged to contribute ideas and to give feedback to senior management. 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 the on-line Performance and Development review process, 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 and internal promotions encouraged.

Staff Report

During the year, the average number of staff paid from the Sovereign Grant was 431 (2014-15: 426). The increase is mainly due to new roles in property maintenance and major projects.

The total costs of Royal Household employees paid from the Sovereign Grant were £19.5 million (2014-15: £18.7 million), an increase of 4.6% in real terms.

Further details of Staff Numbers and an analysis of Staff Costs can be found in Note 4 on page 57.

The median salary of all employees (before deduction of abatements and other charges in respect of housing) is £24,300 (2014-15: £24,600) and the ratio between the salary of the highest paid Committee member and the median salary is 8.7 (2014-15: 8.5). The mean salary of all employees (salaries / FTE staff employed) for the year is £35,144 (2014-15: £34,450). Staff remuneration fell in the range £12,675 to £211,500 in the year (2014-15: £12,675 to £209,400).

The total spend on external consultancy was £0.6 million (2014-15: £0.2 million). The total cost of temporary and agency staff was £0.6 million (2014-15: £0.5 million).

The total number of FTE staff employed by the Royal Household before recharges and secondments to related parties amounted to 500 (2014-15: 497). Of these staff, 280 were male and 220 were female (2014-15: 278 male and 219 female).

Employees at a level equivalent to Senior Civil Service grades, including members of the Lord Chamberlain's Committee comprised 11 males and 3 females (2014-15: 12 males and 3 females).

The average number of days of employee absence due to sickness in 2015-16 was 5.6 days (2014-15: 5.8 days) compared with a national average of 6.9 days for 2015.

There were five exit packages for agreed departures in the year (2014-15: 6) split as follows:

| | 2016 | 2015 |
|------------------------------|------------|------------|
| Less than £10,000 | 2 | 2 |
| £10,001 to £25,000 | – | 2 |
| £25,001 to £50,000 | 2 | 2 |
| Above £50,000 | 1 | – |
| Total no. of exit packages | <u>5</u> | <u>6</u> |
| Expenditure on exit packages | <u>209</u> | <u>104</u> |

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

Sir Alan Reid
Keeper of the Privy Purse
3 June 2016

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;
- 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
3 June 2016

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 2016 under the Sovereign Grant Act 2011. The financial statements comprise 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 and Staff Report that is described in those reports and disclosures 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 2016 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 parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Sovereign Grant Act 2011; and
- the information given in the section of the Annual Report titled Performance Report and Accountability Report 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 parts of the Remuneration and Staff 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.

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

9 June 2016

FINANCIAL STATEMENTS

STATEMENT OF INCOME AND EXPENDITURE

| <i>Year to 31 March</i> | | 2016 | 2015 |
|---|------|----------------------|---------------|
| | Note | £m | £m |
| Funding receivable¹: | | | |
| Grants | | 40.1 | 37.9 |
| Transfer to Sovereign Grant Reserve | | (0.3) | (2.2) |
| | | <u>39.8</u> | <u>35.7</u> |
| Income | | | |
| Property rental income | 2 | 2.9 | 2.8 |
| Facilities management charges | 2 | 5.1 | 4.5 |
| Recharges for functions and other income | 2 | 5.9 | 6.0 |
| | | <u>13.9</u> | <u>13.3</u> |
| Payroll costs | 2,4 | (19.5) | (18.7) |
| Other staff costs | 2 | (1.4) | (1.2) |
| Other expenditure | | | |
| Property maintenance and major projects | 2 | (16.3) | (11.7) |
| Travel | 2 | (4.0) | (5.1) |
| Utilities | 2 | (3.3) | (3.4) |
| Housekeeping and hospitality | 2 | (2.1) | (2.1) |
| Other | 2,3 | (7.1) | (6.8) |
| Total net expenditure | | <u>(39.8)</u> | <u>(35.7)</u> |
| Excess of funding over net expenditure | | <u>—</u> | <u>—</u> |

The accounting policies are summarised on pages 48 to 54. 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 43 to 46. The notes on pages 48 to 74 form part of these accounts. The results shown above relate to continuing activities.

¹ In accordance with the Accounts Direction issued by HM Treasury (See Appendix 3 page 78), 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.

STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

| <i>Year to 31 March</i> | 2016 | 2015 |
|---|-------------|-------|
| | £m | £m |
| Excess of funding over net expenditure | – | – |
| Actuarial gain / (loss) for the year (Group Pension Scheme) | 0.7 | (0.3) |
| Total recognised gains / (losses) relating to the year | 0.7 | (0.3) |

STATEMENT OF FINANCIAL POSITION

| <i>As at 31 March</i> | | 2016 | 2015 |
|----------------------------------|------|---------------|---------------|
| | Note | £m | £m |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 12.7 | 12.1 |
| Intangible assets | 7 | 0.2 | 0.2 |
| Total non-current assets | | <u>12.9</u> | <u>12.3</u> |
| Current assets | | | |
| Inventories | 9 | 0.5 | 0.5 |
| Trade and other receivables | 10 | 7.3 | 6.9 |
| Cash and cash equivalents | 11 | 8.0 | 7.2 |
| Total current assets | | <u>15.8</u> | <u>14.6</u> |
| Total assets | | <u>28.7</u> | <u>26.9</u> |
| Current liabilities | | | |
| Trade and other payables | 12 | (9.4) | (7.9) |
| Non-current liabilities | | | |
| Pension scheme liability | 5 | (2.8) | (3.5) |
| Total liabilities | | <u>(12.2)</u> | <u>(11.4)</u> |
| Net assets | | <u>16.5</u> | <u>15.5</u> |
| Reserves | | | |
| Non-current assets reserve | | 12.9 | 12.3 |
| Inventory reserve | | 0.5 | 0.5 |
| Other net current assets reserve | | 2.0 | 2.6 |
| Sovereign Grant reserve | | 3.9 | 3.6 |
| Pension scheme reserve | | (2.8) | (3.5) |
| Total reserves | | <u>16.5</u> | <u>15.5</u> |

Sir Alan Reid

Keeper of the Privy Purse

3 June 2016

STATEMENT OF CASH FLOWS

| <i>Year to 31 March</i> | 2016 | 2016 | 2015 | 2015 |
|---|--------------|---------------|-------|------------|
| | £m | £m | £m | £m |
| Reconciliation of total net expenditure to funding | | | | |
| Total net expenditure | | (39.8) | | (35.7) |
| Depreciation | 1.4 | | 1.3 | |
| Net excess of contributions over pension service costs | – | | (0.2) | |
| Increase in receivables | (0.4) | | (0.4) | |
| Increase in payables | 1.5 | | 1.3 | |
| | | <u>2.5</u> | | <u>2.0</u> |
| Net cash outflow from operating activities | | (37.3) | | (33.7) |
| Cash flows from investing activities | | | | |
| Capital expenditure | (2.0) | | (2.4) | |
| Net cash outflow from investing activities | | (2.0) | | (2.4) |
| Net cash outflow before funding | | (39.3) | | (36.1) |
| Cash flows from financing activities | | | | |
| Grant funding received | 40.1 | | 37.9 | |
| Net cash inflow from financing activities | | 40.1 | | 37.9 |
| | | <u>0.8</u> | | <u>1.8</u> |
| Net increase in cash and cash equivalents | | 0.8 | | 1.8 |
| Reconciliation of cash and cash equivalents | | 2016 | | 2015 |
| | | £m | | £m |
| As at 1 April | | 7.2 | | 5.4 |
| Net increase | | 0.8 | | 1.8 |
| As at 31 March | | 8.0 | | 7.2 |

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 2015 | 12.3 | 0.5 | 2.6 | 3.6 | (3.5) | 15.5 |
| Actuarial gain on Group Pension Scheme | – | – | – | – | 0.7 | 0.7 |
| Transfer to reserve | – | – | – | 0.3 | – | 0.3 |
| Excess of funding over net expenditure | 0.6 | – | (0.6) | – | – | – |
| As at 31 March 2016 | 12.9 | 0.5 | 2.0 | 3.9 | (2.8) | 16.5 |

| | 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 2014 | 11.2 | 0.5 | 3.9 | 1.4 | (3.4) | 13.6 |
| Actuarial loss on Group Pension Scheme | – | – | – | – | (0.3) | (0.3) |
| Transfer to reserve | – | – | – | 2.2 | – | 2.2 |
| Excess of funding over net expenditure | 1.1 | – | (1.3) | – | 0.2 | – |
| As at 31 March 2015 | 12.3 | 0.5 | 2.6 | 3.6 | (3.5) | 15.5 |

SOVEREIGN GRANT RESERVE

| Sovereign Grant Reserve | 2016 | 2015 |
|--------------------------------|-------------|------|
| | £m | £m |
| Balance brought forward | 3.6 | 1.4 |
| Transfer to reserve | 0.3 | 2.2 |
| Balance carried forward | 3.9 | 3.6 |

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.uk.

Sir Alan Reid

Keeper of the Privy Purse

3 June 2016

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 78 to 80) 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 2015-16 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.

IFRS 13 Fair Value Measurement now applies to FReM compliant entities from 2015-16 and HM Treasury have adapted IAS 16 Property, Plant and Equipment in consideration of this change. Overall, these changes would require a number of assets to be held at fair value. In view of the nature of the non-current assets detailed in the accounts, 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. Other changes to the financial reporting standards since 2014-15 do not have a material impact on the Sovereign Grant 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 78), 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.

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

Operating lease rental receipts 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 78).

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 10 to 30 years.

Expenditure on New Buildings

The cost of construction is capitalised as buildings within Non current assets, held at historical cost and depreciated over 30 years.

Where the cost of constructing a new building is funded by the Royal Collection Trust for shared use with activities funded by the Sovereign Grant, the proportion of the cost attributable to the Sovereign Grant funded activities is capitalised and an equivalent capital reserve is established. Depreciation charged over the life of the asset is accordingly matched by a credit from the Capital Reserve to the Income and Expenditure Account.

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 78).

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, major 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 property management team. Annual works programme project accruals as at 31 March 2016 were £2.2 million (2014-15: £2.1 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 except where holiday is 'banked' in which case a maximum of 15 days can be held in the bank at any time. The estimated accrual is based on a combination of actual leave entitlement and average carry forward or banked leave.

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 2016</i> | PSO | PPTO | MOH | LCO | Total |
|---|--------------|---------------|--------------|--------------|----------------------|
| | £m | £m | £m | £m | £m |
| Income | | | | | |
| Property rental income | – | 2.9 | – | – | 2.9 |
| Facilities management charges | – | 5.1 | – | – | 5.1 |
| Recharges and other income | 0.3 | 3.0 | 2.4 | 0.2 | 5.9 |
| | <u>0.3</u> | <u>11.0</u> | <u>2.4</u> | <u>0.2</u> | <u>13.9</u> |
| Payroll costs | (3.8) | (7.0) | (5.6) | (3.1) | (19.5) |
| Other staff costs | (0.1) | (0.7) | (0.2) | (0.4) | (1.4) |
| Other expenditure | | | | | |
| Property maintenance and major projects | – | (16.3) | – | – | (16.3) |
| Travel | – | (0.1) | – | (3.9) | (4.0) |
| Utilities | – | (3.3) | – | – | (3.3) |
| Housekeeping and hospitality | – | – | (2.1) | – | (2.1) |
| Other | (0.4) | (5.2) | (0.8) | (0.7) | (7.1) |
| Total net expenditure | <u>(4.0)</u> | <u>(21.6)</u> | <u>(6.3)</u> | <u>(7.9)</u> | <u>(39.8)</u> |

Other expenditure includes depreciation and amortisation of £1.4 million under PPTO (2014-15: £1.3 million).

Facilities Management Charges amounting to £5.1 million (2014-15: £4.5 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 2015</i> | PSO | PPTO | MOH | LCO | Total |
|---|--------------|---------------|--------------|--------------|----------------------|
| | £m | £m | £m | £m | £m |
| Income | | | | | |
| Property rental income | – | 2.8 | – | – | 2.8 |
| Facilities management charges | – | 4.5 | – | – | 4.5 |
| Recharges and other income | 0.3 | 3.2 | 2.3 | 0.2 | 6.0 |
| | <u>0.3</u> | <u>10.5</u> | <u>2.3</u> | <u>0.2</u> | <u>13.3</u> |
| Payroll costs | (3.3) | (6.3) | (5.9) | (3.2) | (18.7) |
| Other staff costs | (0.1) | (0.5) | (0.2) | (0.4) | (1.2) |
| Other expenditure | | | | | |
| Property maintenance and major projects | – | (11.7) | – | – | (11.7) |
| Travel | – | (0.1) | – | (5.0) | (5.1) |
| Utilities | – | (3.4) | – | – | (3.4) |
| Housekeeping and hospitality | – | (0.1) | (2.0) | – | (2.1) |
| Other | (0.3) | (5.1) | (0.8) | (0.6) | (6.8) |
| Total net expenditure | <u>(3.4)</u> | <u>(16.7)</u> | <u>(6.6)</u> | <u>(9.0)</u> | <u>(35.7)</u> |

3. Other Expenditure

| | 2016 | 2015 |
|--|-------------------|-------------|
| | £m | £m |
| Amortisation of software (note 7) | – | 0.1 |
| Depreciation of property, plant and equipment (note 8) | 1.4 | 1.2 |
| Other costs | 5.7 | 5.5 |
| | <u>7.1</u> | <u>6.8</u> |

Auditors' remuneration of £44,000 was charged for the year by the National Audit Office (2014-15: £44,000). There were no non-audit fees paid to the auditors (2014-15: 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.

| | 2016 | 2015 |
|--------------------------------------|------------|------------|
| Lord Chamberlain | 1 | 1 |
| Private Secretary's Office | 68 | 64 |
| Privy Purse and Treasurer's Office | 130 | 123 |
| Master of the Household's Department | 164 | 174 |
| Lord Chamberlain's Office | 68 | 64 |
| | <u>431</u> | <u>426</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 500 (2014-15: 497).

This includes staff that are recharged directly to related parties. During the year FTE 44 were recharged in this way (2014-15: FTE 44).

Where staff are recharged to related parties through a management charge invoice, the recovery is shown within recharge income. During the year FTE 25 were recharged in this way resulting in a charge of £0.8 million (2014-15: FTE 27, £0.8 million).

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

| | 2016 | 2015 |
|-----------------------|-------------|-------------|
| | £m | £m |
| Salaries | 15.2 | 14.7 |
| Temporary staff | 0.2 | 0.2 |
| National insurance | 1.4 | 1.3 |
| Pension contributions | 2.7 | 2.5 |
| | <u>19.5</u> | <u>18.7</u> |

The total cost of FTE staff employed by the Royal Household before recharges and secondments to related parties amounted to £21.5 million (2014-15: £20.8 million).

Details of the remuneration of members of the Lord Chamberlain's Committee can be found in the Remuneration and Staff Report on page 36.

Other Staff Costs

Other Staff Costs £1.4 million (2014-15: £1.2 million) include agency staff who are engaged in the performance of duties for the Sovereign Grant at a cost of £0.4 million (2014-15: £0.3 million).

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, which is also now closed to new members. 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 £98.5 million (2014-15: £106.7 million) are included in the resource accounts of the Consolidated Fund Account. The Sovereign Grant funds the employment costs of 59 of the 85 active members of the scheme as at 31 March 2016. 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 2015-16, employers' contributions of £0.4 million were payable to the scheme (2014-15 restated following provision of revised figures: £0.5 million). For 2016-17, employers' contributions are expected to be £0.4 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 Trustees are composed of representatives of both the Royal Household and its employees. Trustees are required by law to act in the best interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits. 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 credit method. As the scheme is closed to new entrants, under the projected unit credit method the current service cost will increase as the members approach retirement. The most recent completed valuation was as at 31 December 2014, and has been used for this disclosure, updated by an independent qualified actuary, Aon Hewitt Associates, to take account of experience over the period since 31 December 2014 and 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 2016.

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 0.2% per annum post-retirement and 1.7% per annum pre-retirement, that real salary increases would average 3.8% per annum and that pensions would increase at the rates specified in the scheme rules.

The most recent full actuarial valuation showed that the total market value of the assets of the scheme was £73.3 million and that this value of the assets was sufficient to cover 91% 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 31% (2014-15: 29.9%) from 1 April 2015, plus a lump sum payment of £0.2 million each year for five years from 1 April 2015 to 31 March 2020.

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.

Under the plan, employees are entitled to annual pensions on retirement at age 60 of 1/60 of final pensionable salary for each year of service (1/70 for service after 31 March 2007).

It is assumed that these measures will be sufficient to eliminate the Sovereign Grant share of the past service deficit of £6.9 million over five years and meet the current service cost.

Scheme assets are stated at their market values at 31 March 2016.

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

| Actuarial assumptions adopted as at 31 March (% pa) | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|-------------|------|------|------|------|
| Discount rate | 3.5 | 3.3 | 4.3 | 4.6 | 4.8 |
| Rate of general long-term increase in salaries | 3.5 | 3.5 | 3.9 | 3.9 | 3.8 |
| Rate of price inflation (RPI) | 3.1 | 3.1 | 3.4 | 3.4 | 3.3 |
| Rate of price inflation (CPI) | 2.0 | 2.0 | 2.4 | 2.4 | 2.3 |
| Rate of increase to pensions in payment | 3.2 | 3.0 | 3.2 | 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) | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|-------------|------|------|------|------|
| Life expectancy for male currently aged 65 | 22.4 | 22.4 | 22.6 | 22.6 | 22.3 |
| Life expectancy for female currently aged 65 | 24.5 | 24.4 | 24.9 | 24.8 | 24.2 |
| Life expectancy at 65 for male currently aged 45 | 24.1 | 24.1 | 24.4 | 24.3 | 24.7 |
| Life expectancy at 65 for female currently aged 45 | 26.4 | 26.3 | 26.8 | 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 2016.

Fair value by asset class with details of those not quoted in an active market

| As at 31 March | 2016 | | 2015 | | 2014 | |
|-------------------------|-------------|------------|-------------|------------|-------|----------|
| | Value | Unquoted | Value | Unquoted | Value | Unquoted |
| | £m | £m | £m | £m | £m | £m |
| UK equities | 2.6 | – | 2.8 | – | 2.4 | – |
| Overseas equities | 10.5 | – | 10.7 | – | 9.5 | – |
| Fixed interest gilts | 1.6 | – | 1.6 | – | 1.2 | – |
| Index-linked gilts | 6.3 | – | 6.4 | – | 5.3 | – |
| Property | 2.4 | 2.4 | 2.1 | 2.1 | 1.9 | 1.9 |
| Cash/net current assets | 0.3 | – | 0.3 | – | 0.1 | – |
| | 23.7 | 2.4 | 23.9 | 2.1 | 20.4 | 1.9 |

Reconciliation of funded status to the balance sheet

| As at 31 March | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|--------------|--------------|--------------|--------------|--------------|
| | £m | £m | £m | £m | £m |
| Fair value of scheme assets | 23.7 | 23.9 | 20.4 | 19.0 | 15.7 |
| Present value of funded defined benefit obligations | (26.5) | (27.4) | (23.8) | (21.5) | (19.1) |
| Net pension liability recognised on the balance sheet | (2.8) | (3.5) | (3.4) | (2.5) | (3.4) |

There is a net pension liability of £2.8 million as at 31 March 2016. 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 | 2016 | 2015 |
|---|------------|------------|
| | £m | £m |
| Current service cost | 0.6 | 0.6 |
| Administration costs incurred | 0.1 | 0.1 |
| Interest expense on net defined benefit liability | 0.1 | 0.1 |
| Pension expense recognised in Statement of Income and Expenditure | 0.8 | 0.8 |

Analysis of amounts charged against comprehensive income and expenditure

| Year to 31 March | 2016 | 2015 |
|---|-------|-------|
| | £m | £m |
| Return on scheme assets in excess of that recognised in net interest | 0.6 | (2.4) |
| Actuarial (gains) / losses due to changes in financial assumptions | (1.0) | 3.6 |
| Actuarial gains due to changes in demographic assumptions | – | (0.4) |
| Actuarial gains due to liability experience | (0.3) | (0.5) |
| Amounts recognised against comprehensive income and expenditure (gain) / loss | (0.7) | 0.3 |

Changes to the present value of the defined benefit obligation

| As at 31 March | 2016 | 2015 |
|--|-------|-------|
| | £m | £m |
| Defined benefit obligations as at 1 April | 27.4 | 23.8 |
| Movement in year: | | |
| Current service cost | 0.6 | 0.6 |
| Interest expense on defined benefit obligations | 0.9 | 1.0 |
| Actuarial (gains) / losses on scheme liabilities arising from: | | |
| changes in demographic assumptions | – | (0.4) |
| changes in financial assumptions | (1.0) | 3.6 |
| experience | (0.3) | (0.5) |
| Net benefits paid out | (1.1) | (0.7) |
| Defined benefit obligations as at 31 March | 26.5 | 27.4 |

Analysis of the defined benefit obligation by membership category

| As at 31 March | 2016 | 2015 |
|----------------------------------|------|------|
| | £m | £m |
| Current employee benefits | 13.8 | 14.4 |
| Deferred member benefits | 6.1 | 6.3 |
| Pensioner member benefits | 6.6 | 6.7 |
| Total defined benefit obligation | 26.5 | 27.4 |

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 20 years.

Changes to the fair value of scheme assets

| As at 31 March | 2016 | 2015 |
|---|-------------|-------------|
| | £m | £m |
| Fair value of scheme assets as at 1 April | 23.9 | 20.4 |
| Movement in year: | | |
| Interest income on scheme assets | 0.8 | 0.9 |
| Contributions by employer | 0.8 | 1.0 |
| Administration costs incurred | (0.1) | (0.1) |
| Remeasurement (losses) / gains on scheme assets | (0.6) | 2.4 |
| Net benefits paid out | (1.1) | (0.7) |
| Fair value of scheme assets as at 31 March | <u>23.7</u> | <u>23.9</u> |

Actual return on scheme assets

| Year to 31 March | 2016 | 2015 |
|---|------------|------------|
| | £m | £m |
| Interest income on scheme assets | 0.8 | 0.9 |
| Remeasurement (losses) / gains on scheme assets | (0.6) | 2.4 |
| Actual return on scheme assets | <u>0.2</u> | <u>3.3</u> |

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

| As at 31 March | 2016 | 2015 |
|---|--------------|--------------|
| | £m | £m |
| Deficit as at 1 April | (3.5) | (3.4) |
| Movement in year: | | |
| Current service cost | (0.6) | (0.6) |
| Interest expense on defined benefit obligations | (0.9) | (1.0) |
| Contributions by employer | 0.8 | 1.0 |
| Administration costs incurred | (0.1) | (0.1) |
| Interest income on scheme assets | 0.8 | 0.9 |
| Actuarial gains / (losses) | 0.7 | (0.3) |
| Deficit as at 31 March | <u>(2.8)</u> | <u>(3.5)</u> |

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

| Year to 31 March | 2016 | 2015 |
|---|--------------|-------|
| | £m | £m |
| Total remeasurement gains / (losses) | 0.7 | (0.3) |
| Change in assets not recoverable in the future | — | — |
| Total gains / (losses) recognised in the Statement of Comprehensive Income and Expenditure | 0.7 | (0.3) |
| Cumulative amount of losses recognised in Statement of Comprehensive Income and Expenditure | (1.9) | (2.6) |

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

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|-----------------------------|---------------|--------|--------|--------|--------|
| | £m | £m | £m | £m | £m |
| Fair value of scheme assets | 23.7 | 23.9 | 20.4 | 19.0 | 15.7 |
| Defined benefit obligations | (26.5) | (27.4) | (23.8) | (21.5) | (19.1) |
| Deficit in scheme | (2.8) | (3.5) | (3.4) | (2.5) | (3.4) |

History of experience gains and losses

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|--------------|------|------|-------|-------|
| | £m | £m | £m | £m | £m |
| Experience (losses) / gains on scheme assets | (0.6) | 2.4 | 0.1 | 1.5 | 1.4 |
| Experience gains / (losses) on scheme liabilities | 0.3 | 0.5 | 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 | DBO¹ | Deficit |
|--|---------------|-------------------------|-------------------------|---------------------------------|--------------------------|------------------------|----------------|
| Current figures | | 0.6 | 0.1 | 0.8 | 23.7 | (26.5) | (2.8) |
| Following: | | | | | | | |
| 0.25% decrease in the discount rate | <i>Change</i> | - | - | - | - | (1.2) | (1.2) |
| | New | 0.6 | 0.1 | 0.8 | 23.7 | (27.7) | (4.0) |
| 0.25% increase in the inflation assumption | <i>Change</i> | - | - | - | - | (1.1) | (1.1) |
| | New | 0.6 | 0.1 | 0.8 | 23.7 | (27.6) | (3.9) |
| 1 year increase in life expectancy | <i>Change</i> | - | - | - | - | (0.9) | (0.9) |
| | New | 0.6 | 0.1 | 0.8 | 23.7 | (27.4) | (3.7) |

¹ Defined Benefit Obligations

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 | 2017 |
|---------------------------------|------------|
| | £m |
| Current service cost | 0.8 |
| Administration Expenses | 0.1 |
| Interest cost | 0.1 |
| Total estimated pension expense | <u>1.0</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 HMRC 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 10 to 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 |
|-----------------------|----------------|
| Cost | |
| At 1 April 2015 | 0.6 |
| Additions | – |
| Disposals | – |
| At 31 March 2016 | <u>0.6</u> |
| Amortisation | |
| At 1 April 2015 | 0.4 |
| Charge for the year | – |
| Disposals | – |
| At 31 March 2016 | <u>0.4</u> |
| Net book value | |
| At 31 March 2016 | <u>0.2</u> |
| At 1 April 2015 | <u>0.2</u> |
| | Software £m |
| Cost | |
| At 1 April 2014 | 0.7 |
| Additions | 0.2 |
| Disposals | (0.3) |
| At 31 March 2015 | <u>0.6</u> |
| Amortisation | |
| At 1 April 2014 | 0.6 |
| Charge for the year | 0.1 |
| Disposals | (0.3) |
| At 31 March 2015 | <u>0.4</u> |
| Net book value | |
| At 31 March 2015 | <u>0.2</u> |
| At 1 April 2014 | <u>0.1</u> |

8. Property, Plant and Equipment

| | Property Improvements & Infrastructure £m | Furnishings & Equipment £m | Plant & Machinery £m | AIC £m | Total £m |
|-----------------------|---|-------------------------------------|----------------------------|------------|-------------|
| Cost | | | | | |
| At 1 April 2015 | 16.4 | 2.3 | 4.9 | 1.8 | 25.4 |
| Transfers | 1.3 | – | 0.5 | (1.8) | – |
| Additions | 0.6 | 0.1 | 0.3 | 1.0 | 2.0 |
| Disposals | – | (0.1) | (0.1) | – | (0.2) |
| At 31 March 2016 | 18.3 | 2.3 | 5.6 | 1.0 | 27.2 |
| Depreciation | | | | | |
| At 1 April 2015 | 8.3 | 1.6 | 3.4 | – | 13.3 |
| Charge for the year | 0.7 | 0.2 | 0.5 | – | 1.4 |
| Disposals | – | (0.1) | (0.1) | – | (0.2) |
| At 31 March 2016 | 9.0 | 1.7 | 3.8 | – | 14.5 |
| Net book value | | | | | |
| At 31 March 2016 | 9.3 | 0.6 | 1.8 | 1.0 | 12.7 |
| At 1 April 2015 | 8.1 | 0.7 | 1.5 | 1.8 | 12.1 |

“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 |
|-----------------------|---|-------------------------------------|----------------------------|------------|-------------|
| Cost | | | | | |
| At 1 April 2014 | 16.4 | 2.4 | 4.9 | – | 23.7 |
| Transfers | – | – | – | – | – |
| Additions | – | 0.1 | 0.3 | 1.8 | 2.2 |
| Disposals | – | (0.2) | (0.3) | – | (0.5) |
| At 31 March 2015 | 16.4 | 2.3 | 4.9 | 1.8 | 25.4 |
| Depreciation | | | | | |
| At 1 April 2014 | 7.7 | 1.6 | 3.3 | – | 12.6 |
| Charge for the year | 0.6 | 0.2 | 0.4 | – | 1.2 |
| Disposals | – | (0.2) | (0.3) | – | (0.5) |
| At 31 March 2015 | 8.3 | 1.6 | 3.4 | – | 13.3 |
| Net book value | | | | | |
| At 31 March 2015 | 8.1 | 0.7 | 1.5 | 1.8 | 12.1 |
| At 1 April 2014 | 8.7 | 0.8 | 1.6 | – | 11.1 |

9. Inventories

| <i>Year to 31 March</i> | 2016 | 2015 |
|-------------------------|-------------|------|
| | £m | £m |
| Wine and spirits | 0.5 | 0.4 |
| Other | – | 0.1 |
| | 0.5 | 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> | 2016 | 2015 |
|--------------------------------|-------------|------|
| | £m | £m |
| Recharges | 0.9 | 0.8 |
| Other receivables | 0.2 | 0.8 |
| Prepayments and accrued income | 6.2 | 5.3 |
| | 7.3 | 6.9 |

Prepayments and accrued income includes £5.1 million (2014-15: £4.5 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 The Royal Collection Trust's accounts.

No provision for bad or doubtful debts was considered necessary as at 31 March 2016 (2014-15: nil).

11. Cash and Cash Equivalents

| <i>Year to 31 March</i> | 2016 | 2015 |
|-----------------------------------|-------------|------|
| | £m | £m |
| Government Banking Service | 7.8 | 5.8 |
| Commercial banks and cash in hand | 0.2 | 1.4 |
| | 8.0 | 7.2 |

12. Trade and Other Payables

| <i>Year to 31 March</i> | 2016 | 2015 |
|------------------------------|------------|------------|
| | £m | £m |
| Trade payables | 1.5 | 1.4 |
| Rent deposits | 0.1 | 0.1 |
| Taxes and social security | 1.2 | 1.2 |
| Other payables | 1.4 | 0.7 |
| Accruals and deferred income | 5.2 | 4.5 |
| | <u>9.4</u> | <u>7.9</u> |

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:

| | 2016 | 2015 |
|---|------------|------------|
| | £m | £m |
| Within one year | 1.2 | 1.2 |
| Later than one year and not later than five years | 0.3 | 0.3 |
| | <u>1.5</u> | <u>1.5</u> |

Obligations under operating leases

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

| | 2016 | 2015 |
|---|------------|------------|
| | £m | £m |
| Within one year | 1.1 | 1.0 |
| Later than one year and not later than five years | 1.3 | 1.7 |
| Later than 5 years | – | – |
| | <u>2.4</u> | <u>2.7</u> |

14. Other Commitments

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

| | 2016 | 2015 |
|---|--------------------|-------------|
| As at 31 March | £m | £m |
| Within one year | 16.5 | 14.7 |
| Later than one year and not later than five years | 2.6 | 1.2 |
| Later than 5 years | – | – |
| | <u>19.1</u> | <u>15.9</u> |

This expenditure comprises:

| | 2016 | 2015 |
|---|--------------------|-------------|
| As at 31 March | £m | £m |
| Property Maintenance and major projects | | |
| • Contracted | 6.7 | 4.0 |
| • Authorised | 10.0 | 9.9 |
| Royal Train – service contract | 0.3 | 0.2 |
| Helicopter – maintenance contracts | 2.1 | 1.8 |
| | <u>19.1</u> | <u>15.9</u> |

There were no capital commitments included within contracted commitments (2014-15: nil)

15. Contingent Liabilities

There were no contingent liabilities at the year end (2014-15: 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.

| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
|----------------------------|--------------------------|------------|-------------------------|------------|
| | Balance due from: | | Recoveries from: | |
| The Royal Collection Trust | 5.9 | 5.5 | 11.1 | 10.2 |
| Privy Purse | 0.1 | 0.2 | 0.6 | 0.9 |
| Other Royal Households | 0.2 | 0.1 | 1.1 | 1.4 |
| | Balance due to: | | Charged by: | |
| Privy Purse | 0.2 | – | 0.3 | 0.4 |
| Other Royal Households | 0.1 | – | 0.1 | – |

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. 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, accommodation and utilities 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.

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

| | 2016 | 2015 | 2016 | 2015 |
|---------------------------------|---------------------------|-------|--------------------------|------|
| | £m | £m | £m | £m |
| | Balance due / (to) | | Recoveries from / | |
| | from: | | (charges to): | |
| Foreign and Commonwealth Office | – | 0.2 | 0.6 | 0.6 |
| Home Office | – | – | 0.1 | 0.1 |
| Metropolitan Police | 0.1 | – | 0.2 | 0.1 |
| Cabinet Office | (0.2) | (0.1) | – | – |

17. Non-Adjusting Post Balance Sheet Event

The United Kingdom is set to hold a referendum on 23 June 2016 on whether or not to remain a member of the European Union (EU). These accounts were certified on 9 June 2016, prior to the referendum being held. The outcome of the referendum is not however expected to have a significant impact on these financial statements.

18. Issue of Accounts

On 3 June 2016 the financial statements were approved by the Accounting Officer and Audit Committee and on 6 June 2016 were approved by the Lord Chamberlain's Committee prior to certification by the Comptroller and Auditor General on 9 June 2016. On this date the financial statements are deemed to be authorised for issue.

APPENDICES

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

Property maintenance and major projects

| | 2016 £m | 2015 £m |
|----------------------|-------------|-------------|
| Projects | | |
| • construction | 11.1 | 7.2 |
| • fees | 1.4 | 1.0 |
| Reactive maintenance | 3.8 | 3.5 |
| | <u>16.3</u> | <u>11.7</u> |

Travel

| | 2016 £m | 2015 £m |
|---|------------|------------|
| Air travel | | |
| • Helicopters (includes operating lease payments of £0.7 million) | 1.7 | 1.6 |
| • Fixed wing (large) | 0.2 | 0.9 |
| • Fixed wing (small) | 0.9 | 1.1 |
| • Scheduled | 0.2 | 0.5 |
| Rail travel (includes imputed operating lease payments of £0.2 million) | 0.8 | 0.8 |
| Motor vehicles | 0.2 | 0.2 |
| | <u>4.0</u> | <u>5.1</u> |

Utilities

| | 2016 £m | 2015 £m |
|-----------------------|------------|------------|
| Rates and council tax | 1.2 | 1.3 |
| Electricity | 0.8 | 0.9 |
| Gas | 0.8 | 0.9 |
| Water | 0.3 | 0.2 |
| Telephones | 0.2 | 0.1 |
| | <u>3.3</u> | <u>3.4</u> |

Housekeeping and hospitality

| | 2016 | 2015 |
|-----------------------------|------------|------------|
| | £m | £m |
| Food and drink | 1.4 | 1.3 |
| Cleaning, laundry and other | 0.7 | 0.8 |
| | <u>2.1</u> | <u>2.1</u> |

Other

| | 2016 | 2015 |
|---|------------|------------|
| | £m | £m |
| Depreciation and amortisation of software | 1.4 | 1.3 |
| Information Systems and equipment | 2.6 | 3.0 |
| Insurance, legal advice and other professional services | 1.3 | 0.9 |
| Printing, postage and stationery | 1.0 | 0.9 |
| Other | 0.8 | 0.7 |
| | <u>7.1</u> | <u>6.8</u> |

APPENDIX 2: FIVE YEAR INFORMATION (Unaudited)

| <i>Year to 31 March</i> | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|---------------|--------|--------|--------|--------|
| | £m | £m | £m | £m | £m |
| Funding received: | | | | | |
| Grants | 40.1 | 37.9 | 36.1 | 31.0 | 29.1 |
| Amounts repayable to the Department for Transport | – | – | – | – | (0.1) |
| (Transfer to) / draw-down from Sovereign Grant Reserve | (0.3) | (2.2) | (0.4) | 2.3 | 5.4 |
| | 39.8 | 35.7 | 35.7 | 33.3 | 34.4 |
| Income | | | | | |
| Property rental income | 2.9 | 2.8 | 3.2 | 3.0 | 2.7 |
| Facilities management charges | 5.1 | 4.5 | 4.4 | 3.7 | 3.5 |
| Recharges for functions and other income | 5.9 | 6.0 | 5.8 | 4.9 | 3.8 |
| | 13.9 | 13.3 | 13.4 | 11.6 | 10.0 |
| Payroll costs | (19.5) | (18.7) | (18.2) | (18.3) | (17.5) |
| Other staff costs | (1.4) | (1.2) | (1.3) | (1.2) | (1.0) |
| Other expenditure | | | | | |
| Property maintenance and major projects | (16.3) | (11.7) | (13.3) | (9.1) | (8.9) |
| Travel | (4.0) | (5.1) | (4.2) | (4.5) | (5.0) |
| Utilities | (3.3) | (3.4) | (3.3) | (3.1) | (2.2) |
| Housekeeping and hospitality | (2.1) | (2.1) | (2.0) | (1.9) | (1.8) |
| Other | (7.1) | (6.8) | (6.8) | (6.8) | (6.0) |
| Total net expenditure | (39.8) | (35.7) | (35.7) | (33.3) | (32.4) |
| Funding for fixed assets and working capital | – | – | – | – | 2.0 |

PERFORMANCE INDICATORS AND OPERATING RATIOS

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|-------------------------------|-------------|------|------|------|------|
| Suppliers paid within: | | | | | |
| 15 days | 45% | 49% | 51% | 59% | 53% |
| 30 days | 94% | 94% | 96% | 96% | 93% |
| Staff Numbers | 431 | 426 | 431 | 436 | 431 |

APPENDIX 3: SOVERIEGN 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.¹
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.

¹ 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.