



**The Sovereign Grant
and
Sovereign Grant Reserve**
*Annual Report and Accounts
2018-19*



SOVEREIGN GRANT ACT 2011

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and
Sovereign Grant Reserve**
Annual Report and Accounts
2018-19

*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 visits Lexicon shopping centre in Bracknell on 19th October 2018

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CONTENTS

	Page
The Sovereign Grant	2
The Official Duties of The Queen	3
Performance Report	8
Accountability Report:	
<i>Governance Statement</i>	27
<i>Remuneration and Staff Report</i>	41
<i>Statement of the Keeper of the Privy Purse's Financial Responsibilities</i>	45
<i>The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament and the Royal Trustees</i>	47
Financial Statements:	
<i>Statement of Income and Expenditure</i>	57
<i>Statement of Other Comprehensive Income and Expenditure</i>	58
<i>Statement of Financial Position</i>	59
<i>Statement of Cash Flows</i>	60
<i>Statement of Changes in Reserves</i>	61
<i>Sovereign Grant Reserve</i>	62
<i>Notes to the Accounts</i>	63
Appendices:	
<i>Appendix 1: Additional Notes to the Statement of Income and Expenditure</i>	90
<i>Appendix 2: Five Year Information</i>	92
<i>Appendix 3: Sovereign Grant Accounts Direction</i>	93

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 Core 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 2016-17 amounted to £328.8 million, thereby producing a Core Sovereign Grant of £49.3 million for 2018-19.

The Royal Trustees² agreed that from 2017-18, the Sovereign Grant will be calculated based on 25% of the income account net surplus of the Crown Estate for the financial year two years previous, with the additional 10% to be used to fund the Reservicing of Buckingham Palace over a period of ten years. The additional Sovereign Grant for Reservicing for 2018-19 is £32.9 million and the total Sovereign Grant for 2018-19 is therefore £82.2 million.

Official expenditure met by the total Sovereign Grant in 2018-19 amounted to £67.0 million (2017-18: £47.4 million) an increase of £19.6 million (41%) compared to the previous year, mainly due to an increase in expenditure on property maintenance, which included £14.1 million expenditure on the Reservicing of Buckingham Palace. In addition, £6.8 million was spent on capital assets, most of which related to Reservicing.

The equivalent of the excess of the Sovereign Grant and other income over expenditure of £15.2 million in 2018-19 was transferred to the Sovereign Grant Reserve (2017-18: £28.7 million). £4.3 million was transferred from the Sovereign Grant Reserve to the non-current assets reserve to cover capital expenditure net of depreciation (2017-18: £2.7 million). These reserve movements are set out on pages 61 and 62.

The Sovereign Grant Reserve includes £36.8 million to meet future commitments for the Reservicing of Buckingham Palace. Authorised and contracted Reservicing commitments total £85.0 million at 31 March 2019, set out in Note 14 below.

The Sovereign Grant for 2019-20 is £82.4 million (Core £49.4 million and Reservicing £33.0 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 Environment Scotland.

² 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).

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 – unity and national identity, continuity and stability, achievement and success, and support of 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, international and Commonwealth 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:

- Recurring traditional events like the State Opening of Parliament, Trooping the Colour, Garter Day, the Royal 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 thirteen Prime Ministers and met twelve of the last thirteen 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, awards and events. 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 160,000 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:

- 265,000 congratulatory telegrams to centenarians on their 100th birthdays;
- 821,400 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 more than 3,200 engagements a year across the UK and overseas – 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 online 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 and is taxed to the extent it is not used to meet official expenditure. The Prince of Wales also meets the official expenditure of The Duke and Duchess of Cambridge and The Duke and Duchess of Sussex out of this income. Accounts for the Duchy of Cornwall are presented to both Houses of Parliament annually, copies of which are available online 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 The Royal Collection Trust, a registered charity, from visitor admissions to the Occupied Royal Palaces and related activities. The Royal Collection Trust receives no funding from the Government. Over 7.9 million people saw items from the Royal Collection in royal palaces during 2018-19 and many more people saw items from the Royal Collection on loan to museums and galleries around the world. An annual report is published by The Royal Collection Trust, copies of which are available online at www.rct.uk.

Further information is available online 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:

- Plan and deliver first-class Royal events.
- Provide high quality advice and effective input into policy issues.
- Communicate effectively the role and activities of the Monarchy.
- Support / influence 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 best value from our financial resources.
- Ensure business process / infrastructure provides the best possible support and continues to develop.

OVERVIEW OF THE YEAR

The year ended 31 March 2019 was again busy, with The Queen's programme incorporating a number of significant milestones as referred to on page 15.

INCOME GENERATION

Income supplementing the Sovereign Grant amounted to £17.8 million (2017-18: £17.3 million), an increase of £0.5 million (3%). Facilities management income, charged to the Royal Collection Trust in respect of services provided in connection with admitting the public to Windsor Castle and Buckingham Palace, increased by £1.0 million. Recharges and other income decreased by £3.8 million (of which £3.4 million relates to the funding received from the Royal Collection Trust in 2017-18 for the construction of the Frogmore workshop).

PROPERTY MAINTENANCE, INCLUDING GENERAL MAINTENANCE - CORE

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 approach of the Property Section 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 system that assists in determining maintenance priorities and monitoring changes in the overall condition of the Occupied Royal Palaces;
- A prioritisation model that grades required works and projects into an agreed ranking criteria, allowing more informed decision making;
- The operating requirements of the departments of The Queen's 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, environment and Health and Safety; and
- A rolling ten year plan setting out major projects across the Occupied Royal Palaces Estate.

All projects with a construction cost of £6,000 or more are individually monitored through the Annual Works Programme showing projected and actual costs, which is updated on a monthly basis. A summary of property maintenance activities undertaken in 2018-19 is given on pages 10-12. All schemes over £100,000 are approved through a Business Case process, based on the HM Treasury 5-case model (strategic, economic, commercial, financial and management).

The Royal Household aims to use over 50% of any increase in Core Sovereign Grant funding 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 Core Sovereign Grant has been allocated to property maintenance; allowing for inflation, an additional £45.0 million has been allocated to property maintenance in the six years of the Sovereign Grant. The latest Condition Assessment survey of the Occupied Royal Palaces Estate highlighted that 50% of the Estate was below target condition at 31 December 2017. Changes in the condition of the Estate will continue to be monitored through the regular condition assessment surveys. It is expected that any decline in condition will begin to reverse in the next four years due to the continued investment from the Sovereign Grant. Expenditure on property maintenance from the Core Sovereign Grant (including property capital expenditure) was £25.1 million in 2018-19, an increase of £2.2 million compared with the previous year.

General Maintenance

Property 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 £6,000, 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, leaking roofs and so on. Expenditure on general maintenance after VAT recoveries was £5.1 million in 2018-19 (2017-18: £4.1 million).

Major Projects in the Year

In 2018-19 a total of 176 (2017-18: 188) projects over £6,000 in value were carried out across the Estate. Thirteen of these projects had a construction works spend in excess of £350,000 in the year and individually accounted for 61% of the total project spend across the whole Estate (2017-18: 6 and 61%), details of which are set out below.

Frogmore Cottage, Windsor (£2.4m)

The scheme consisted of the reconfiguration and full refurbishment of five residential units in poor condition to create the official residence for The Duke and Duchess of Sussex and their family. The works started on-site in November 2018 and were substantially completed by the end of March 2019.

Victoria & Albert Mausoleum, Windsor (£1.4m)

The mausoleum, located within the Home Park, has suffered from structural water penetration and excessive condensation for decades. It is the only asset within the portfolio which is on the Historic England 'Heritage At Risk' register, which notes the flaws with the original design. The first phase of the project is in two parts, the first part is to replace the copper roof and the inadequate original rainwater drainage. The second part will see the excavation and construction of a 'dry moat' around the base of the structure and the installation of heating pipework. The first part started in June 2018 and is scheduled for completion at the end of May 2019. The second phase of the project is not expected to start for around 3 years, once the Mausoleum has dried out.

West Range Roof, Buckingham Palace Mews (£1.4m)

The project scope included the replacement of the roof finish, primarily with traditional lead and improved weathering details around edges, gutters and light wells to prevent further water ingress. The works were carefully coordinated around the Mews activity and movement of horses. The works started in August 2018 and were completed in March 2019.

Cyclical External Redecorations (£1.3m)

The Occupied Royal Palaces have a five yearly cyclical maintenance plan of external building redecoration. The works comprise access equipment hire, repairs, preparation and repainting. This year's external decoration works (London £0.8m and Windsor Castle £0.5m) started in August 2018 and were completed in October 2018.

Palace Avenue Resurfacing, Kensington Palace (£1.0m)

The driveway within the Kensington Palace boundary had been deteriorating at an accelerated rate, with the very thin 'resin bonded' surface completely missing in numerous areas. The winter 'freeze/thaw' action had also started to degrade the subbase, creating pot holes and trip hazards. The scope of the scheme included removing the remaining surface, repairing the subbase and then laying a thicker 'resin bound' top layer. The works started in August 2018 and were completed in November 2018.

North Side, Grand Staircase Roofing and External Repairs, Windsor Castle (£1.0m)

This scheme is a continuation of previous roof phases on the North Side of the Castle. The scope of works includes the replacement of lead roof coverings, timber boarding and structural supports, roof access hatches, gutters and downpipes, and repairs to defective pointing and stonework. The scheme started in May 2018 and is due for completion in June 2020.

Private Apartments Heating, Windsor Castle (£0.7m)

The 'blown air' delivery units which served the private apartments were not able to reach the desired temperatures due to the heat loss along the extended pipework from the boiler house. The project created a new smaller boiler room dedicated to the private apartments whilst also replacing the 'blown air' heaters with traditional radiators. The project commenced in July 2018 and was completed by October 2018.

Maintenance and Emergency Access Roof Walkway Replacement, St James's Palace (£0.7m)

A holistic approach to the walkways was required to meet statutory requirements for health and safety, working at height and fire. Whilst on site, adhoc repairs were also made to the roof area and associated detailing where required. The project started in August 2018 and was completed in March 2019.

Road Surface Replacement, Buckingham Palace (£0.5m)

The access road from Lower Grosvenor Gate through to the rear of the Palace was exhibiting accelerated wear and degradation. After removal of the existing finishes a new stronger subbase was laid before the application of the top course. The project commenced in October 2018 and was completed in January 2019.

Gardeners' Compound, Buckingham Palace (£0.4m)

The project undertook a range of works to the existing compound area to ensure it met statutory compliance in terms of vehicle wash down facilities, Control of Substances Hazardous to Health (COSHH) requirements, welfare regulations for the garden team and a covered vehicle store. The scheme commenced in June 2018 and completed in September 2018.

Old Stables Refurbishment, Kensington Palace (£0.4m)

The scheme allows for the complete refurbishment of the property including the old and failing mechanical and electrical systems. The project commenced in January 2019 and is due for completion in summer 2019.

Boundary Wall, Fence and Gate Repairs, Clarence House (£0.4m)

The project encompassed the perimeter of the Clarence House garden elevation and included structural brickwork repairs caused by movement and 'rust jacking' to attached buildings and the main wall, replacement of the top timber fence element, extension of brickwork piers and new gates. The scheme started in October 2018 and was completed in March 2019.

Roof Repairs and Access Walkways, Buckingham Palace (£0.4m)

The East and West Cross Gallery roofs required the replacement of the access walkways and maintenance platforms due to the poor condition of the existing ironwork. The scheme also repaired defective roof coverings to a winch housing and sundry modifications to the plant allowing the complete removal from the roofline of the old fan motor room enclosure. The project commenced in September 2018 and was completed in January 2019.

RESERVICING OF BUCKINGHAM PALACE

The Palace's electrical cabling, plumbing and heating have not been updated since the 1950s, and a report to HM Treasury in 2017 identified that the building's infrastructure was in urgent need of an overhaul to avoid the very real danger of catastrophic failure leading to fire or flood, and incalculable damage to the building and priceless works of art in the Royal Collection.

A number of options to replace the services throughout the Palace were considered by the Royal Household, in conjunction with HM Treasury. It was concluded that the most cost-effective way to replace the services, and ensure that the Palace is fit for purpose for the next 50 years, would be to undertake a phased programme of works over ten years, starting in 2017 and finishing in 2027.

This programme of works is being undertaken by a separate project team, whilst the ongoing pre-planned preventative maintenance across all sites will continue to be undertaken by the Property Section, with both teams under the supervision of the Director of Property Services.

The Reservicing programme presents a unique opportunity for innovation and investment in one of the world's most prestigious and iconic historic buildings, preserving it for future generations.

The objectives of the programme are to:

- Replace the ageing core services of the Palace to eliminate the very real risk of fire or flood;
- Ensure that Buckingham Palace remains fit for purpose as the principal residence of The Sovereign;
- Increase and improve the public access to the Palace (including adjustments to improve accessibility) and ensure longevity of such access;
- Support the efficient use of the wider estate;
- Improve the energy efficiency of the Palace; and
- Provide value for money and a demonstrable return on investment through the benefits outlined above.

The Reservicing programme is sequenced wing-by-wing so as to enable the Palace to remain occupied and fully operational, and The Queen's programme to continue to be delivered without interruption. Significant National events, such as the Changing of the Guard, Trooping the Colour, Investitures, Garden Parties and the opening of the Palace to visitors from all over the world during the summer months will also continue throughout the Reservicing period.

In addition to replacing the essential services, the Reservicing programme will deliver other benefits and efficiencies. The operational effectiveness of the Palace will be increased by making the building more energy efficient and cost effective. There will be a significant increase in the numbers of people visiting the Palace, with a renewed focus on education. It will also offer an opportunity for a new generation of construction professionals to work on a historic building through apprenticeships and graduate programmes.

This 10 year programme, at a total cost of £369 million, is being delivered by the Royal Household using a dedicated Project Management Office (PMO), consisting of both Household staff and external consultants. This team provides leadership, direction and an operational interface during the delivery of the programme. Management of the programme risk has not been transferred to a separate delivery authority, and remains with the Master of the Household as Senior Responsible Owner (SRO) and the Keeper of the Privy Purse as Accounting Officer, both of whom are accountable to HM Treasury and Parliament. The SRO and the Accounting Officer, as members of the Lord Chamberlain's Committee, provide regular reports on the programme's progress and the impact on the Royal Household's operations. HM Treasury will be engaged throughout the programme through attendance at meetings of the Sovereign Grant Audit and Risk Assurance Committee and the independent Programme Challenge Board.

The programme risks are mitigated by the PMO's management of the procurement and construction process, and the programme being delivered in phases. The phased approach also provides the flexibility required to adapt the programme and address the impact of changes, which are inevitable over a programme of this length. These phases are:

- **Advanced Works** – The creation of open plan offices for PMO and Household staff within the Palace to enable the decant of staff from the East Wing, allowing the team to commence the Reservicing in that area. The removal of Vulcanised Indian Rubber (VIR) cabling was included as part of this phase as this cabling was deemed to present the greatest fire risk and therefore early removal was essential. All known VIR cabling has been removed throughout the Palace in 2018-19;
- **High Priority Works** – The replacement of main plant (boilers, generators, electrical panels and water tanks) and primary services distribution;
- **Reservicing** – The wing-by-wing replacement of secondary services distribution, fittings and controls through the building to contribute directly to energy efficiencies; and
- **Operational Improvements** – A range of interventions which will improve operational efficiency and support the delivery of benefits which are highlighted in the Business Case approved by HM Treasury.

The Royal Household has established a clear and detailed governance process to allow the continual monitoring of programme risks and to ensure that progress is being achieved according to targets. This is done through an Integrated Assurance Group which regularly reviews the overall governance of the programme. In line with the Government Infrastructure & Projects Authority process, there will be a series of formal Gateway Reviews and Checkpoint audits by independent reviewers. The first three Programme Assessment Reviews were completed in December 2017, June 2018 and December 2018 to inform the Programme Challenge Board.

Major Focus in the Year

During 2018-19 the key areas of work have included:

- Tender and on-site commencement of the High Priority Works package, which has already seen the provision of temporary boilers, new basement infrastructure, generators and the decommissioning of the old main plant room;
- The progression of the detailed design through RIBA stages 3 and 4 for the entire works;
- Design and tender of both the East Wing enabling works package (opening up the building and asbestos removal), and the Contract Management package;
- The conversion of new open plan office space for approximately 100 people.

- The decant of all Royal Collection items from the East Wing, and the move of over 250 staff to different areas of the Palace (including the newly converted open plan office space);
- Design, tender and on-site construction of the South Forecourt Contractors' compound, including secure entry and exit provisions, and a new large scale access point into the main plant room; and
- Planning and sequencing of the future works packages for the State Rooms to ensure the continuing daily functions of the Palace and the Buckingham Palace Summer Opening.

Future Commitments

The Business Case for the Reservicing of Buckingham Palace, which was approved by HM Treasury, recognised that there would be surplus income over expenditure in the early years of the 10 year Reservicing programme. In the first two years of the programme, Sovereign Grant income allocated to the programme amounted to £63.3 million to meet expenditure of £21.5 million plus capital expenditure of £5.0 million, with £36.8 million transferred to the Sovereign Grant Reserve to meet future expenditure. As at 31 March 2019 the Royal Household had authorised and contracted commitments of £85.0 million to be met from this reserve. The Sovereign Grant Reserve funds are deposited with the Government Banking Service until required.

PUBLIC ENGAGEMENTS

During the year 1 April 2018 to 31 March 2019, The Queen undertook 140 official engagements in the United Kingdom.

Highlights of Her Majesty's schedule included:

- In April, The Queen, accompanied by The Prince of Wales, opened the Commonwealth Heads of Government Meeting at Buckingham Palace. Her Majesty also gave a dinner for the Commonwealth Heads of Government at Buckingham Palace.
- In June, The Queen, accompanied by The Duchess of Sussex, visited Cheshire during which time Her Majesty opened the Mersey Gateway Bridge, near Widness and the Storyhouse in Chester.
- In July, The Queen, accompanied by other members of the Royal Family, attended a Service in Westminster Abbey to celebrate the Centenary of the Royal Air Force. The Queen presented a New Queen's Colour to the Royal Air Force in the Forecourt of Buckingham Palace and witnessed a fly-past.
- In July, The Queen met the President of the United States of America and Mrs. Melania Trump at Windsor Castle.
- In July, The Queen visited Edinburgh for Holyrood Week.

- In October, Her Majesty visited Bracknell, Berkshire and undertook a number of engagements.
- In October, The King and Queen of the Netherlands paid a State Visit.
- In November, The Queen attended the Armistice Ceremony at the Cenotaph and a service in Westminster Abbey to mark the centenary of the Signing of the Armistice.
- In February, Her Majesty visited Watergate House in London to mark the centenary of the Government Communications Headquarters. Her Majesty toured the building, meeting members of staff, apprentices and those with connections to Bletchley Park, and viewed historical material from 1919 to the present day.
- In March, The Queen visited Manor Farm Stables in Somerset and viewed the horses being paraded. Her Majesty also met representatives from the University of Bath, who are working on research projects on equestrian sport spinal injuries and racehorse welfare.
- In March, The Queen, accompanied by other members of the Royal Family, attended the Commonwealth Day Observance Service in Westminster Abbey.

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, dignity, 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 is 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, The Duke of Sussex 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 Adviser and the Director of Protocol, Foreign and Commonwealth Office.

Over 3,200 official engagements were undertaken across the United Kingdom and overseas by members of the Royal Family during the year to 31 March 2019. A list of the 34 (2017-18: 38) journeys undertaken by members of the Royal Family and their staff during 2018-19 which had travel costs of £15,000 or more, met from the Sovereign Grant, is available on the Monarchy website at www.royal.uk. The travel costs for the tours also include the costs associated with staff undertaking visits in advance in order to plan the tour programmes.

The principal overseas visits undertaken by The Prince of Wales on behalf of The Queen included:

- The Prince of Wales and The Duchess of Cornwall – visit to St Lucia, Barbados, St Vincent and the Grenadines, St Kitts and Nevis, Grenada, Cuba and Grand Cayman (£417,000);
- The Prince of Wales and The Duchess of Cornwall - visit to Ghana, Gambia and Nigeria (£216,000);
- The Prince of Wales and The Duchess of Cornwall – visit to Greece and France (£159,000);

Other members of the Royal Family undertook 15 overseas visits during the year, including:

- The Duke and Duchess of Sussex – visit to Fiji and Tonga (£81,000);
- The Duke of Cambridge – visit to Jordan, Israel and Palestinian occupied territories (£74,000);

EVENTS 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, investitures and other official entertaining. The Master of the Household's Department delivered 240 Receptions, 158 Lunches, 9 Garden Parties (including 3 Duke of Edinburgh Gold Awards Events) and 75 Dinners at Buckingham Palace, Windsor Castle, St. James's Palace and the Palace of Holyroodhouse, welcoming over 160,000 guests to these residences over the course of the year.

A number of large scale events were held at the Royal residences in 2018-19, including the Commonwealth Heads of Government Meeting and a State Visit for the King and Queen of the Netherlands.

Members of the Royal Family also hosted the following events on behalf of The Queen:

The Prince of Wales

- The Queen's Awards for Enterprise, June.
- Reception to Celebrate the Centenary Year of the Royal Air Force, July.

The Duchess of Cornwall

- The Commonwealth Essay Competition Awards, November.

ENVIRONMENTAL SUSTAINABILITY

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 its environmental impact, further improving its operational efficiency and optimising associated costs by embedding environmental sustainability across its activities and the organisation.

Progress this year has included:

- a 24% reduction in energy use for heating and lighting; and
- a 2% reduction in waste generation.

Greenhouse Gas Emissions

Scope 1 and 2 greenhouse gas emissions - from heating, lighting and owned/leased vehicles - reduced by 22% during the year; driven by an overall 24% reduction in energy use for heating and lighting, due to in-year initiatives, including the replacement of life-expired boilers with modern efficient boilers in various properties across the Estate and the continued roll-out of LED lighting, and the impact of a milder winter than the previous year.

Scope 3 emissions - largely from business travel - increased by 93% during the year, due to higher usage of chartered large fixed wing aircraft for foreign business travel and there were five such overseas visits in 2018-19 compared to one in 2017-18. Overseas tours are determined by the Royal Visits Committee. Total greenhouse gas emissions increased by 3% overall, due to the in-year impact of foreign business travel outweighing the reduction from heating and lighting.

	2019 (tCO ₂ e)	2018 (tCO ₂ e)	%
			change
Scope 1: Natural gas and owned/leased vehicles	3,638	5,027	(28)
Scope 2: Purchased electricity	1,300	1,304	-
Total Scope 1 & 2	4,938	6,331	(22)
Scope 3: Business travel	3,344	1,687	98
Scope 3: Electricity transmission & distribution	111	106	5
Total Scope 3	3,455	1,793	93
Total Scope 1 – 3	8,393	8,124	3

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

Energy Consumption

Energy consumed in 2018-19 decreased by 24%:

	2019	2018	%
	kWh (m)	kWh (m)	change
Gas	17.0	24.3	(30)
Electricity – National Grid	4.6	3.7	24
Electricity – Combined Heat and Power (CHP)	0.8	2.2	(64)
Electricity – Hydro-electric Scheme at Romney Lock, Windsor	1.0	0.7	43
	23.4	30.9	(24)

2018-19 energy efficiency initiatives that have contributed to the overall energy consumption reduction are outlined above. In addition, The Royal Collection Trust has been charged for a higher share of consumption for its activities in 2018-19. There has been less use of the CHP plant as it reaches end of life.

Water

In 2018-19, 0.2 million cubic metres of water from public suppliers was used across the Estate (2017-18: 0.2 million cubic metres).

Waste

In 2018-19 2,147 tonnes of waste was produced across the Household (2017-18: 2,182 tonnes), a 2% decrease. The tonnage of waste recycled includes gardens and horse waste from London and Windsor, which has shown reductions during the year.

	2019	2018	%
	Tonnage	Tonnage	change
Waste recycled	1,515	1,668	(9)
Waste to landfill / incineration	632	514	23
Total waste	<u>2,147</u>	<u>2,182</u>	<u>(2)</u>

Sustainable Procurement

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

SOCIAL RESPONSIBILITY

The Royal Household is 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.

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 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. External experts, including the Crown Inspectors, are also utilised to audit the portfolio to provide an independent view on the fire safety systems and approach. Their reports are reviewed, discussed and relevant action points completed as required. 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 best practice into fire safety systems, policies and procedures. An internal audit services report during the year made recommendations for improved resilience.

Health and Safety

The Royal Household is fully committed to 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 including 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 including the development of the Royal Household Strategy for Health and Safety.

Responsibility for health and safety rests with managers and employees, supported by Departmental Safety Coordinators, a Property Section Safety Manager and a central Health and Safety Team. The central Health and Safety Team provides advice and guidance to managers and employees, helping to bring continual improvement to work activities and the workplace. This includes the provision of relevant training for all staff, specific to their role.

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, currently 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. Communicating a positive approach to health and safety remains the focus of attention.

INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS

In March 2018 the Telecoms team completed the replacement of the Household's existing telecoms system with a new fully managed Voice Over Internet Protocol telecoms solution at all the Occupied Royal Palaces and other Royal residences. In 2018-19 work commenced on replacing any remaining analogue telecoms services within Buckingham Palace to facilitate the Reservicing programme.

During the year the Telecoms teams also reviewed the requirements for inter connectivity via telecoms with Government and in 2019-20 will replace the existing system as part of a phased programme.

Work has also progressed on the future IT and Telecoms network design to be delivered in stages during the Reservicing programme.

Phase one of a cloud migration strategy was completed with email services migrated to the cloud and the deployment of single sign-on functionality to allow secure access to third party cloud services. Work has now commenced on phase two of the strategy to migrate the remaining services to the cloud by 2020.

Further infrastructure changes were made to improve resilience and in line with other Government departments, the Household has migrated away from the public services network.

With help from a third party, a review of our key business processes has started, with the aim of developing new supporting applications on a cloud-based platform.

Cyber security remains a high priority. This year we have completed several cyber incident response exercises, and a cyber awareness and anti-phishing campaign. A full IT Health Check was completed on all systems and, with the advice of the National Cyber Security Centre, several improvements were made.

INFORMATION ASSURANCE AND MANAGEMENT

The Royal Household retained its certification to the government's Cyber Essentials standard. Data protection and cyber security training is provided for all staff.

The Royal Household maintains the necessary standards of compliance and good practice with the General Data Protection Regulation (GDPR) and has delivered improvements in a number of key areas, including data sharing agreements. A new online training platform has been developed to increase data protection and information security awareness amongst all staff. During 2018-19, there were no data breach incidents to report to the Information Commissioner's Office (2017-18: none).

An information audit has commenced to facilitate business process evaluation, to maintain the information asset register, and to prepare electronic data for preservation and long-term digital archiving. The Royal Household has a security governance and risk management system which covers its business outputs. In regard to Information assurance and cyber related risks, numerous working groups and linked project teams meet regularly to analyse and review risks and methods of mitigation.

HUMAN RESOURCES

In 2018-19 there was a continued proactive focus on wellbeing and engagement initiatives which have provided tangible benefits to the Household, alongside a programme of HR activities relating to Digital Working and Management of Change.

The introduction of the new Royal Household intranet was received very positively with 94% of users engaging regularly with the site. Over the year, the launch of the new Learning and Management System also enabled more progress to be made in the digitisation of HR service delivery and flexible on-line learning programmes. At the same time, all HR paper records were transferred to a digital filing system, and the reduced transactional workload meant that more focus was given to ensuring visibility of HR “business partners” with an ability to provide greater proactive involvement in initiatives to support change. Digital initiatives, and the impact of the Buckingham Palace Reservicing programme had a heightened impact within the general context of change. The HR team supported workshops and communications to support the move of staff to refurbished open-plan offices in Buckingham Palace, and helped facilitate more team based, collaborative working practices.

The number of employees undertaking learning increased in 2018-19. The delivery channels and format diversified, with more modular and “bite sized” sessions introduced for all levels, as well as “in-the-moment” on-line learning opportunities. HR metrics provided to the Departments proved effective in ensuring focus on improvements in turnover, wellbeing and sickness absence. Gender Pay Reporting was implemented in 2018, alongside the Household’s annual Equal Pay audit. Benchmarking, measurement and evaluation continued to be a key activity for the HR function, with the Employee Engagement Survey and Investors in People reaccreditation assessment providing valuable feedback for leaders and managers.

SUPPLIER PAYMENT PERFORMANCE

The Royal Household's performance for paying its suppliers is:

Percentage paid within:	2019	2018
	%	%
• 15 days of receipt of invoice	45	45
• 30 days of receipt of invoice	93	94

The Royal Household’s five year performance can be found on page 92.

FUTURE DEVELOPMENTS

Property Maintenance

The Annual Works Programme of the Property Section includes a number of major projects which aim to meet the objectives set out in the Sovereign Grant Framework Agreement with HM Treasury.

Property Services Core Priority Projects (based on condition and risk)

Water Infrastructure Repairs and Replacement, Windsor Castle

Continuation of the phased replacement of the main pipework to the Castle and around the Home Park network.

Victoria & Albert Mausoleum, Windsor

Following the completion of the replacement roof and drainage works, the next phase, starting in Summer 2019, will see the creation of a 'dry moat' around the foundations and crypt to reduce the water entering the structure from the ground.

Hundred Steps, Windsor Castle

The steps have been out of use for many years following a structural collapse. They run external to the Castle down a steep embankment. The scheme will check the entire structural integrity whilst rebuilding and repairing the collapsed section.

Porte Cochere Clarence House, St James's Palace

Following the discovery and removal of mosaic tiles, allowing the essential waterproofing repairs originally specified to happen, 2019-20 will see their reinstatement along with a new central feature to the Porte Cochere.

Structural Ceiling Repairs, Buckingham Palace and Windsor Castle

Following extensive ceiling surveys, the project will see a wide range of repairs and modifications to numerous ceilings across the estate.

Structural Roof Replacement, St. James's Palace

An area of flat roofing with a reinforced concrete structure has failed and a replacement of the roof is required. It will be replaced with a more traditional timber structure and roof finish.

External Fabric Repairs

The long-term programme of external fabric repairs across the estate is extensive. In 2019-20, the renewal of ageing lead roofs in the Upper Ward at Windsor Castle will continue.

The Kings Kitchen Cottages in Kensington Palace have suffered from damp problems for a number of years and following exploratory studies in 2017-18, a project to undertake repairs is scheduled.

The five yearly cyclical redecorations will continue across the estate.

Reservicing of Buckingham Palace Projects

Key activities will include:

- Commencement of the East Wing Reservicing utilising Construction Management to coordinate and manage the contractors for each works package;
- Start of the first phase of onsite works in the State Rooms on the West Wing;
- Completion of the High Priority works in the basement including new mechanical and electrical plant and equipment;
- Completion of the new energy centre with high efficiency boilers and controls to facilitate our carbon footprint reduction plans; and
- Finalisation of RIBA Stage 4 designs for the entire programme.

Environmental Sustainability

The Household will continue to work on improving energy efficiency, waste management, water use and other environmental impacts across the Estate. Collaborating with stakeholders and identifying new initiatives and focus areas will be key to achieving our goals. The Household will investigate opportunities with both existing and new suppliers to further improve our combined environmental performance; including for example reducing single-use food containers at catering outlets, to achieve improvements in both material use and waste generation. Opportunities to further improve energy efficiency will be identified through the better monitoring and targeting achieved by continuing to roll-out smart meters. Our Building Management System controls and connectivity continue to be optimised and expanded as we maintain and upgrade our buildings and utility systems. Plant replacement and LED lighting upgrades will continue on a rolling programme. The Buckingham Palace Reservicing programme and The Royal Collection Trust Future Programme will deliver many of these improvements, by including consideration and implementation of environmentally efficient technologies in the design process.

Human Resources

The strategic capability of HR was enhanced in 2018-19 by aligning Learning and Development and Internal Communications with the appointment of a Head of Learning, Organisational Development and Talent. This role will have responsibility for supporting delivery of the Household's key strategic objectives relating to Digital Working, Diversity, Talent Attraction and Management and Leadership Development. The team will lead on projects planned for 2019-20 relating to the further development of the Household's digital recruitment and engagement channels, apprenticeship opportunities, enhanced e-learning capability, as well as talent identification, assessment and development. Their project plan includes the extension of an onboarding facility within the intranet for new recruits, who will have a digital welcome and ability to connect with the Household prior to joining. They will also design and deliver a new modular development programme for senior leaders from across the Royal Households.

The change in the HR structure has also enhanced the operational support provided by HR to business areas, unifying it under a single grouping that is more aligned and coordinated in its provision of services to all parts of the Royal Household.

Other projects in 2019-20 will relate to changes in the Household grading structure, initiatives relating to Diversity and Wellbeing, and support for the Household's digital workplace programme.

Going Concern

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

Sir Michael Stevens
Keeper of the Privy Purse
10 June 2019

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 (the 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 five non-executive members are collectively referred to as the Lord Chamberlain's Committee.

The Lord Chamberlain's Committee meets formally at least eight times per annum. Its members are set out below:

- Lord Chamberlain - The Rt Hon. The Earl Peel

Heads of Departments:

- | | |
|--|--|
| • Private Secretary to The Queen | - The Rt Hon. Edward Young |
| • Keeper of the Privy Purse | - Sir Michael Stevens |
| • Master of the Household | - Vice Admiral Tony Johnstone-Burt |
| • Comptroller, Lord Chamberlain's Office | - Lt Col. Sir Andrew Ford (until 31 December 2018) |
| | - Lt Col. Michael Vernon (from 1 January 2019) |
| • Director of the Royal Collection | - Mr Tim Knox |

¹ A copy of the Sovereign Grant Framework Agreement with HM Treasury is available online 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 - Mr Clive Alderton
- Private Secretary to The Duke of Cambridge - Mr Miguel Head (until 1 July 2018)
- Dr Simon Case (from 2 July 2018)
- Private Secretary to The Duchess of Cornwall - Ms Amanda MacManus (until 19 December 2018)
- Deputy Private Secretary to The Duchess of Cornwall (interim) - Ms Sophie Densham (from 20 December 2018)
- Private Secretary to The Duchess of Cambridge - Ms Catherine Quinn

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 8).

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 The Royal Collection Trust and The Prince of Wales' Household. The Sovereign Grant Planning Committee met 11 times during 2018-19 (2017-18: 11). The activities of the Sovereign Grant Planning Committee include reviewing the monthly Sovereign Grant management accounts, reviewing the Budget and Three-Year Plan (2019-22), monitoring risks and information assurance, monitoring progress on major projects and the allocation of resources to deliver projects on time and on budget, reviewing business cases which have a significant operational impact and require an assessment of the priorities for Sovereign Grant funds and ensuring good internal communications. 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 2018-19 (2017-18: twice) to consider reports from the Information, Personnel and Physical Security Working Groups. The Security Risk Management Board is chaired by the Private Secretary who reports to the Lord Chamberlain's Committee after each meeting;
- Aviation Safety Review Board – The Royal Household Aviation Safety Review Board meets annually to consider risks assessed by the Aviation Safety Management Committee on Fixed Wing aircraft and Helicopter travel. The Board is chaired by the Director of Operations, Royal Travel, and comprises senior management from within the Household, including representatives from Health and Safety and the participation of external contractors;
- Buckingham Palace Reservicing Programme Executive Board (PEB) – The PEB met 10 times during 2018-19 (2017-18: 14). Its primary responsibility is to oversee the delivery of the Royal Household's Reservicing programme at Buckingham Palace. The PEB is chaired by the Master of the Household who is the Senior Responsible Owner (SRO) for the Reservicing programme and who, jointly with the Accounting Officer, is responsible for the delivery of the programme to cost, time and specification. Members of the Programme Executive Board comprise senior management from within the Household, including a representative from The Royal Collection Trust. Mr Paul Lewis, an independent Non-Executive Director with extensive property project management experience also sits on the Board;

- Buckingham Palace Reservicing Programme Challenge Board (PCB) – The PCB meets quarterly (2017-18: quarterly). Its primary responsibility is to provide specialist scrutiny, oversight, advice and guidance to the PEB and the SRO as they work to deliver the Buckingham Palace Reservicing programme. The independent chair of the PCB, Baroness Ford, has experience of managing large property projects. Membership of the PCB includes Mr David Fairbrother from HM Treasury (Mr Richard Brown until 9 May 2019), Dr David Hancock from the Infrastructure and Projects Authority, Cabinet Office, Mr Stuart Love, Chief Executive of Westminster City Council, Mr Charlie Parker, Chief Executive of the States of Jersey, Ms Nina Ciuffardi from the Restoration and Renewal Programme (until 23 May 2019), Palace of Westminster, Mr Paul Lewis, the programme's Non-Executive Director, and Mr Malcolm Reading, an independent heritage buildings consultant who is also part of the team providing assurance and risk audit services to the Restoration and Renewal Programme at the Palace of Westminster.

The terms of reference for each of the Boards and the Sovereign Grant Planning Committee are reviewed and 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 and Risk Assurance Committee

The Audit and Risk Assurance Committee for the Sovereign Grant is also 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 and Risk Assurance Committee reports to the Lord Chamberlain's Committee after every meeting and provides an overall annual report on the Audit and Risk Assurance Committee's activities and responsibilities. In undertaking its responsibilities, the Audit and Risk Assurance Committee considers reports from both internal and external auditors and management, and makes recommendations to the Lord Chamberlain's Committee.

Meetings of the Audit and Risk Assurance 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 and Risk Assurance Committee reviews its terms of reference annually and undertakes a formal evaluation of its own performance every three years. The results of the most recent evaluation were considered in November 2016. As a result, the terms of reference were updated to reflect the redefinition of the group from an 'Audit Committee' to an 'Audit and Risk Assurance Committee'.

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 of 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 and external audit findings and the recommendations of other external bodies;
- 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. Buckingham Palace Reservicing programme, property maintenance management, and data protection).

The membership of the Lord Chamberlain’s Committee and the Audit and Risk Assurance Committee is set out below with the attendance record for the year.

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

Lord Chamberlain’s Committee	Meetings attended	Audit & Risk Assurance Committee	Meetings attended
The Rt Hon. The Earl Peel (Chair)	8/8	Sir David Tweedie (Chair)	4/4
The Rt Hon. Edward Young	8/8	Mr John Coombe	4/4
Sir Michael Stevens	8/8	Ms Leslie Ferrar	4/4
Vice Admiral Tony Johnstone-Burt	8/8	Mr Malcolm Reading	4/4
Lt Col. Sir Andrew Ford	6/6		
Lt Col. Michael Vernon (as Comptroller, Lord Chamberlain’s Office, after Lt Col. Sir Andrew Ford left)	3/3		
Mr Tim Knox	8/8		
Brigadier Archie Miller-Bakewell	8/8		
Mr Clive Alderton	6/8		

Mr Miguel Head	1/2
Dr Simon Case (as Private Secretary to The Duke of Cambridge after Mr Miguel Head left)	6/6
Ms Amanda MacManus	5/6
Ms Sophie Densham (Deputy Private Secretary to The Duchess of Cornwall, while Ms Amanda MacManus is on sabbatical leave)	2/2
Ms Catherine Quinn	8/8

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

Specialist risk managers in the Royal Household include the Head of Information Assurance, the Director of Property Section, Head of Risk and Compliance, the Director of Operations, Royal Travel, the 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, the Lord Chamberlain's Committee and the Audit and Risk Assurance 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 HM 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. This is reviewed by the Lord Chamberlain's Committee, the Audit and Risk Assurance Committee, the Sovereign Grant Planning Committee and departmental management teams at each meeting;
- The Audit and Risk Assurance 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 and Risk Assurance Committee that is aligned to the risk registers and Royal Household objectives. The findings of reviews are reported to the Audit and Risk Assurance Committee;
- The Audit and Risk Assurance 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, the Buckingham Palace Reservicing Programme, Property Maintenance statutory compliance and Travel Safety are provided by 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 and Risk Assurance 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 review of their effectiveness every three years. The Lord Chamberlain's Committee performed a review in February 2019, which resulted in the decision to include more information on the Royal Household's intranet about the roles of the Lord Chamberlain's Committee and the Sovereign Grant Planning Committee and their membership; to ensure that the Lord Chamberlain's Committee agenda aligns with the changes in the Royal Household risk register; and to improve the timely communication of decisions made at the Lord Chamberlain's Committee. The Sovereign Grant Planning Committee performed a review in September 2017.

Governance Activities during the year

A programme of internal audit work for the twelve month period beginning 1 April 2018 was agreed by the Audit and Risk Assurance Committee at its meeting held on 20 March 2018.

The Audit and Risk Assurance Committee reviews internal audit reports at each meeting. At the meetings held in November 2018 and March 2019, the Audit and Risk Assurance Committee reviewed progress reports on internal audit work undertaken during the 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 Planning, Pension Schemes Governance and Fire Control. Further assurance was provided over the Buckingham Palace Reservicing Programme, including the impact of works on business as usual activities and the protection of Royal Collection items.

On the basis of the audit work undertaken during the 2018-19 financial year, the internal control environment (including the key financial systems and governance) is well established and operating effectively in practice.

Projects

The Lord Chamberlain's Committee has regularly reviewed progress on projects which contribute to the Household's risk management. These projects include the Buckingham Palace Reservicing programme, Network resilience, GDPR compliance, Delegation of Authority, and the Property 10 Year Plan.

Staff

The Lord Chamberlain's Committee reviewed progress with the Household's Diversity and Inclusion strategy, the implementation of the new intranet, the annual People Report and progress with addressing the recommendations emerging from the 2017 staff survey.

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 The Royal Collection Trust and Other Households. The Audit and Risk Assurance Committee reviewed the Treasury Finance Manual and any changes in cost allocation proposed for 2019-20 and provided assurance to the Lord Chamberlain's Committee as to the reasonableness of any 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. Under the provisions of the Public Interest Disclosure Act, the Royal Household has a disclosure procedure in place to enable employees to report any concerns that they may have in respect to qualifying disclosures e.g. concerns relating to suspected fraud, theft, bribery, any other criminal offence, a miscarriage of justice, health and safety at work, or damage to the environment. 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, Audit Services and the Audit and Risk Assurance Committee. There are no significant disclosures to report.

Concern at Work Policy

This policy works alongside the Disclosure Policy outlined above. It is important for the wellbeing and security of all employees and the reputation of the Royal Household that any concerns regarding the behaviour of workers are 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 plan including the Reservicing of Buckingham Palace.
Impact:	An increase in the proportion of the Estate below target condition and increased risk of failure of facilities. The Buckingham Palace Reservicing programme is not completed within 10 years. The operational risk to the delivery of The Queen's and other members of the Royal Family's programme, and limiting public access to Buckingham Palace and other Occupied Royal Palaces.
Principal mitigations:	Annual review and update of property maintenance and major project programme. Established project management framework. Comprehensive and transparent governance by project boards for larger projects such as the Reservicing of Buckingham Palace. Regular updates of condition assessments for the Estate.
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. Adherence to the terms set out in the Finance Manual agreed annually with HM Treasury.
Residual risk rating:	Low

People Risks

Risk:	Failure in terms of leadership, policies and culture to provide the environment where talented people from all backgrounds thrive, perform and develop the necessary competence, resulting in underperformance across key areas of the Household. Inability to attract and retain key staff and provide adequate succession planning, thereby impacting the Household's ability to meet its objectives.
Impact:	Adverse impact on the Household's ability to provide effective support to The Queen and other members of the Royal Family.
Principal mitigations:	Ensure the Royal Household is a “best in class” employer offering outstanding employment opportunities on merit to rigorously selected and vetted recruits. Capable leadership at all levels underpins a positive working culture. All aspects of the employee experience are considered alongside other retention measures. Workplace policies, practices and culture encourage staff retention and engagement, with leaders and HR undertaking succession planning. Workforce planning, aligned with learning and development, anticipates and delivers both current and future organisational resourcing needs.
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 Review 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 results in serious harm to a member of the Royal Family, a member of staff, supplier, tenant or guest/visitor.
Impact:	Injury, reputational damage, 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 and regularly reviewed programme of Health and Safety risk assessments, control arrangements, training / awareness and monitoring of compliance. Continuous promotion of a positive Health and Safety culture throughout the Household.
Residual risk rating:	Low

Fire Safety Risks

Risk:	A significant fire resulting in serious harm to a member of the Royal Family, a member of staff, supplier, tenant, guest, visitor or member of the emergency services; and/ or significant damage to one of the Occupied Royal Palaces, another property on the Estate and/or their contents. Risks are increased during major property refurbishments e.g. Reservicing of Buckingham Palace, re-roofing of Windsor Castle and other Occupied Royal Palaces.
Impact:	Injury. Damage to the Occupied Royal Palaces and/or their contents. Reputational damage. Penalties and/or legal action against the Household or members of staff.
Principal mitigations:	A structured and regularly reviewed programme of Fire strategies, risk assessments, control arrangements, training / awareness and monitoring of compliance. External audits and inspections by the Crown Premises Fire Inspection Group. The 10-year property maintenance plan including the Reservicing of Buckingham Palace. Comprehensive fire detection and alarm systems across the Estate. Full-time Fire Safety Teams and 24 hour / 7 day Fire Control Rooms in London and Windsor. Promotion of a positive Fire Safety culture throughout the Household.
Residual risk rating:	Medium

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:	Unauthorised access to Royal Household data.
Impact:	Reputational damage, penalties and/or legal action against the Household or members of staff.
Principal mitigations:	<p>Comprehensive and regular reporting to the Lord Chamberlain's Committee.</p> <p>A structured programme of training and compliance work, including mandatory staff training in cyber security and awareness with phishing campaigns and activities to achieve the key requirements of the General Data Protection Regulation (GDPR).</p> <p>Promotion of Information Assurance awareness culture throughout the Household, linking to incident reporting and investigation procedures.</p> <p>Significant reduction in the volume of sensitive data held within Royal Household IT systems.</p> <p>Implementation of improvements in cyber defences and regular practices conducted in cyber incident identification, management and recovery.</p> <p>Re-awarded the government's Cyber Essentials Advanced certificate</p>
Residual risk rating:	Medium

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

Summary

The year under review has been another busy period for the Royal Household with the continuing demands of The Queen's programme, which included the Commonwealth Heads of Government meeting at Buckingham Palace, the visit of the President of the United States to Windsor, and the programmes of other members of the Royal Family who support The Queen, which in addition to over 3,000 official engagements in the UK included 34 visits overseas.

The subsidiary boards and committees of the Lord Chamberlain's Committee provide valuable support in the review of risks, projects and business cases to ensure that the Lord Chamberlain's Committee is well informed when making decisions.

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 Royal 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 Michael Stevens
Keeper of the Privy Purse
10 June 2019

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.

	Total Remuneration		Salary		Pension Payments	
	2019	2018	2019	2018	2019	2018
<i>Year to 31 March</i>						
£'000						
The Rt Hon. The Earl Peel	102	101	89	88	13	13
Full time equivalent salary (FTE): 211 (2018: 208)						
The Rt Hon. Edward Young	211	86	183	75	28	11
<i>Full year equivalent salary</i>				179		
Sir Michael Stevens	156	39	123	31	33	8
FTE salary: 205 (2018: 51)						
<i>Full year equivalent salary</i>				122		
Vice Admiral Tony Johnstone-Burt	166	160	144	139	22	21
Lt Col. Sir Andrew Ford (until 31 Jan 2019)	128	143	112	124	16	19
<i>Full year equivalent salary</i>			126			
Lt Col. Michael Vernon (from 1 Jan 2019)	28	-	24	-	4	-
<i>Full year equivalent salary</i>			95			

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

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. Vice Admiral Tony Johnstone-Burt was provided with housing for the better performance of his duties and his salary was abated in accordance with a formula agreed with HM 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.

Mr Tim Knox, Director of the Royal Collection, is not included in the above table because he was paid by The Royal Collection Trust.

The Rt Hon. The Earl Peel, The Rt Hon. Edward Young, Sir Michael Stevens and Vice Admiral Tony Johnstone-Burt are trustees of The 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 in support of the achievement of its objectives. They underpin the Household's aims to create an outstanding workplace, promote pride in work, a sense of teamwork, trust and collaboration, a focus on progressive change and continuous improvement, and an engaged and adaptable workforce drawn from a wide cross section of society.

The experience of working for the Royal Household has been articulated in six descriptors or attributes: "A Shared and Unique Purpose", "A Sense of Guardianship", "Pride in Performance", "Pushing things forward", "A Diverse Household" and "A Place to Grow".

Employees are encouraged to develop new skills and to continuously grow and progress their careers. Talent is recognised; and project work and cross Department projects, such as the Buckingham Palace Resourcing Programme, have created opportunities for new skills to be deployed and developed. Focus groups, staff consultation sessions and formal surveys also encourage innovation and ideas to be contributed. Managers are expected to seek feedback from their teams and involve them in decision making. A culture of feedback and recognition is developing, with informal and formal recognition schemes, alongside more interactive communications made possible by the new intranet.

Alongside management support, social activities and wellbeing programmes are recognised as having a key part to play in creating a healthy and engaged workforce. Managers are trained to support, mentor and coach their teams and monitor their contribution, evaluating their team's progress through the use of an online Performance Management system. Diversity is valued, all appointments and promotions are on merit, with active consideration given to applicants with disabilities, and support to employees who become disabled to ensure their development and career progression continues. At the same time, Family Friendly policies, as well as flexible working enabled by digital workplace technologies support work life balance and more agile working arrangements.

The Royal Household benchmarks and seeks validation for its employment policies and practices. In recognition of its commitment to employee health and wellbeing, the Royal Household has achieved the Investors in People Health and Wellbeing Best Practice Award and will be re-accredited in 2019.

Staff Report

Further details of Staff Numbers and an analysis of Staff Costs can be found in Note 4 on page 72.

During the year, the average number of Full Time Equivalent (FTE) staff paid from the Sovereign Grant was 463 (2017-18: 438), 9 on a fixed term contract (2017-18: 22). This excludes the element of staff time paid for from any other sources of income.

The total costs of Royal Household employees paid from the Sovereign Grant were £23.2 million (2017-18: £21.4 million), an increase of 8.4% (an increase of 5.2% excluding the Buckingham Palace Reservicing programme). For staff providing a shared service to related parties, only the element paid for by the Sovereign Grant is included. For staff whose services are recharged to related parties, all of their costs are included.

For all staff paid for in whole or in part by the Sovereign Grant:

- The total number of FTE staff employed by the Royal Household as at 31 March 2019 amounted to 555 (2017-18: 528). Of these staff, 276 were men and 279 were women (2017-18: 281 men and 247 women);
- Employees at a level equivalent to current Senior Civil Service grades as at 31 March 2019, including members of the Lord Chamberlain's Committee comprised 26 men and 12 women (2017-18: 26 men and 11 women);
- The median salary of all employees (before deduction of abatements and other charges in respect of housing) was £27,000 (2017-18: £25,500) and the ratio between the salary of the highest paid Lord Chamberlain's Committee member and the median salary was 7.8 (2017-18: 8.2);
- Staff salary of all employees on an FTE basis fell in the range £17,363 to £210,535 in the year (2017-18: £16,224 to £208,450); and
- The average number of days of employee absence due to sickness in 2018-19 was 5.0 days (2017-18: 4.4 days) compared with a national average of 6.6 days for 2018.

The total spend on external consultancy was £0.9 million (2017-18: £0.6 million). The total cost of temporary and agency staff was £2.3 million (2017-18: £1.1 million), the increase relating to the Buckingham Palace Reservicing programme.

There were three exit packages for agreed departures in the year (2017-18: 5) split as follows (paid for by the Sovereign Grant and excluding any element paid for by any other sources of income):

	2019	2018
< £10,000	1	-
£10,001 to £25,000	2	1
£25,001 to £50,000	-	4
Total no. of exit packages	<u>3</u>	<u>5</u>
Expenditure on exit packages (£'000)	<u>47</u>	<u>169</u>

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

Sir Michael Stevens
Keeper of the Privy Purse
10 June 2019

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 Annual Report and Accounts 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 also 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.

The Keeper of the Privy Purse also confirms that this annual report and accounts as a whole is fair, balanced and understandable, and he takes personal responsibility for judgements made to ensure that it is fair, balanced and understandable.

Sir Michael Stevens

Keeper of the Privy Purse

10 June 2019

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

Opinion on financial statements

I certify that I have audited the financial statements of the Sovereign Grant and the Sovereign Grant Reserve Fund for the year ended 31 March 2019 under the Sovereign Grant Act 2011. The financial statements comprise: The Statements of Income and Expenditure, Other Comprehensive Income and Expenditure, Financial Position, Cash Flows, Changes in Reserves, Sovereign Grant Reserve and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the information in the Accountability Report that is described in that report as having been audited.

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 and the Sovereign Grant Reserve Fund as at 31 March 2019 and of the Sovereign Grant's total net expenditure for the year then ended;
- have been properly prepared in accordance with the Sovereign Grant Act 2011 and HM Treasury directions issued thereunder.

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.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sovereign Grant's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 ‘Audit of Financial Statements of Public Sector Entities in the United Kingdom’. My responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council’s Revised Ethical Standard 2016. I am independent of the Royal Household in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework described in the table below has been applied.

Regularity Framework	
Authorising legislation	The Sovereign Grant Act 2011
Sponsor Department	Framework Agreement relating to the Sovereign Grant
HM Treasury and related authorities	Managing Public Money

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the significant risk of material misstatement owing to fraud arising from revenue recognition or the significant risk of material misstatement due to management override of controls or the significant risk of material misstatement I recognised in respect of the payroll reconfiguration areas where my work has not identified any matters to report.

The areas of focus were discussed with the Audit and Risk Assurance Committee throughout the course of the audit.

Buckingham Palace Reservicing Programme	
<p>Description of risk</p> <p>The aim of the Reservicing programme is to replace the cabling, plumbing and heating in Buckingham Palace as well as to improve the use of the Palace to ensure the building is protected for future generations and accessibility is improved. It is funded by increasing the Sovereign Grant for ten years, beginning in 2017-18. This year the total grant was £82.2 million (£76.1 million in 2017-18) of which £32.9 million was for Reservicing (£30.4 million in 2017-18).</p> <p>This is a high-profile programme, with increased public interest, and a significant increase in the level of activity, so I have recognised a significant risk of material misstatement. There is a risk around the appropriate accounting principles applied and, as the amounts involved over the ten years are significant, I have directed my efforts in this area during the year. I have placed particular focus on the following:</p> <ul style="list-style-type: none"> • The split between Reservicing and Core spend • Classification of works between capital and revenue expenditure • The auditor’s objective under ISA 540 to conclude whether an estimate is reasonable and adequately disclosed in the context of the financial reporting framework in respect of the stage of completion of works 	
<p>How the scope of my audit responded to the risk</p>	<p>I have assessed the design and implementation of the Royal Household’s controls with respect to the recording of financial information to be included within the accounts. I have found that the control environment has evolved and matured since the prior year and the design and implementation of controls is adequate.</p> <p>I have been able to place reliance on controls for my audit of the Reservicing programme, which meant my audit approach was a mix of controls and substantive testing.</p>

	<p>I have carried out a risk-based review of estimates and commitments in relation to Reservicing, inspected evidence supporting these, and reviewed the use of experts by management in forming judgements as to the stage of completion of works. I have documented and assessed the use of experts supporting management in arriving at the significant estimates within the financial statements. These mainly relate to accruals which are based on the stage of completion of works as at year-end. As part of this work I have obtained evidence confirming that the experts used are appropriately qualified, have sufficient capability and competence to perform this work to a sufficient standard, and follow an appropriate methodology.</p> <p>As described in the materiality section below, I have used a lower materiality threshold to respond to the level of public interest in the programme. I have increased my sample testing of Reservicing expenditure as a result.</p> <p>Key observations</p> <p>I did not identify any errors in relation to the Reservicing programme and I am content that the Reservicing programme is appropriately recognised in the accounts in 2018-19.</p>
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Annual Works Programme	
	<p>Description of risk</p> <p>The Royal Household has a ten-year plan in order to maintain the Occupied Royal Palaces. Each year, this is broken down to create an Annual Works Programme (AWP) which is accounted for under the Core Sovereign Grant.</p> <p>There is a significant risk of material misstatement in the accounting of the AWP due to the scale and complexity of the works and the impact the Reservicing programme may have on the processes and controls surrounding other property works by diverting management attention.</p> <p>Similar to the Reservicing programme, I placed particular focus on:</p> <ul style="list-style-type: none"> • The split between Core and Reservicing property works • Classification of projects between capital and revenue expenditure

<ul style="list-style-type: none"> The auditor's objective under ISA 540 to conclude whether an estimate is reasonable and adequately disclosed in the context of the financial reporting framework in respect of the stage of completion of works. 	
<p>How the scope of my audit responded to the risk</p>	<p>I have inspected the design and implementation of the Royal Household's controls to manage spend relating to Core property projects. Based on the findings of my work, I am satisfied that the controls are working effectively so I relied on them to gain my assurance.</p> <p>I have also carried out testing of a sample of project expenditure throughout the year to ensure that this was accounted for appropriately.</p> <p>I have supplemented this work by carrying out a risk-based review of AWP estimates to confirm that these are appropriate and supported by evidence.</p> <p>I have documented and assessed the use of experts supporting management in arriving at the significant estimates within the financial statements. These mainly relate to accruals which are based on the stage of completion of works as at year-end. As part of this work I have obtained evidence confirming that the experts used are appropriately qualified, have sufficient capability and competence to perform this work to a sufficient standard, and follow an appropriate methodology.</p> <p>Key observations</p> <p>I did not identify any errors in relation to the Annual Works programme and I am content that the Annual Works programme was appropriately recognised in the accounts in 2018-19.</p>

Royal Household Group Pension Scheme

Description of risk

The Sovereign Grant has a £1.7 million pension liability (£3.1 million in 2017-18) in relation to its participation in the Royal Households Group Pension Scheme. Changes in the value of the liability are primarily driven by changes in actuarial assumptions.

The balance is a significant estimate and a sensitive disclosure where small changes in the underlying assumptions can lead to considerable changes in the scheme liability. The assumptions impacting the valuation of the liability include discount rates, rate of price inflation, future pension increments and life expectancy. In response, I recognised a significant risk of misstatement around the pension estimate.

How the scope of my audit responded to the risk

I have tested the assets and liabilities of the pension scheme. This included testing the assumptions used in their valuation by benchmarking them against relevant comparator organisations and industry standards. I have also considered whether the notional asset share determined at the date of the last triennial valuation remains appropriate.

I have confirmed that management's experts have used assumptions that fall within industry standard ranges.

I have also looked at the governance arrangements between the employer and the scheme administrator, as well as gaining an understanding of the process in place for setting assumptions in-year and the actuarial roll-forward methodology used by the actuary. I have used actuarial experts to support my review of the above, and to challenge the approach adopted by management to confirm that this estimate is reasonable and has been adequately disclosed within the financial statements.

I have agreed the Scheme assets to returns provided by Investment Managers and confirmed the appropriate disclosures are in place.

Key observations

I did not identify any errors in relation to the defined benefit liability and I am content that the liability was appropriately recognised in the accounts in 2018-19.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined the following materialities for my audit:

	Core materiality	Reservicing materiality
Overall materiality	£822,000	£170,000
How I determined it	Based on approximately 1% of 2018-19 Sovereign Grant funding	Based on approximately 1% of 2018-19 Reservicing expenditure
Why I chose this benchmark	I consider it to be the principal consideration for users in assessing the financial performance of the Sovereign Grant	I consider it to be the principal consideration for users in assessing the financial performance of the Reservicing Programme

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the audited parts of the Accountability Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I have agreed with the Audit and Risk Assurance Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £8,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit and Risk Assurance Committee have increased net expenditure by £79,000 (net effect of known errors (£8,000) and extrapolated errors £87,000).

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of 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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Sovereign Grant Act 2011.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Royal Household's internal controls.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

I am also 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.

Audit scope

The scope of my audit was determined by obtaining an understanding of the Royal Household and its environment, including entity-wide controls, and assessing the risks of material misstatement. It was designed to address the key risks and took account of materiality as set out above. I performed detailed testing on all significant balances and movements as discussed above. I considered the Sovereign Grant's framework of authorities throughout my testing, and ensured controls reviewed and transactions tested were consistent with these. This work gave me the evidence I needed for my opinion on the financial statements as a whole.

Other Information

As Accounting Officer, the Keeper of the Privy Purse is responsible for the other information. The other information comprises information included in the annual report but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Sovereign Grant Act 2011;
- in light of the knowledge and understanding of the Royal Household and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports 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;
- the financial statements and the part of the Accountability Report to be audited are not in agreement with the accounting records and returns;
- 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.

Gareth Davies

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

13 June 2019

FINANCIAL STATEMENTS

STATEMENT OF INCOME AND EXPENDITURE

<i>Year to 31 March</i>		Core	Reservicing	2019	2018
	Note	£m	£m	£m	£m
Funding receivable¹:					
Grants		49.3	32.9	82.2	76.1
Transfer from/(to) Sovereign Grant Reserve		0.3	(15.5)	(15.2)	(28.7)
		49.6	17.4	67.0	47.4
Income					
Property rental income	2	3.2	–	3.2	3.3
Facilities management charges	2	7.0	–	7.0	6.0
Recharges for functions and other income	2	7.6	–	7.6	11.4
Transfer to non-current assets reserve	1e	–	–	–	(3.4)
		17.8	–	17.8	17.3
Expenditure					
Payroll costs	2,4	(22.1)	(1.1)	(23.2)	(21.4)
Other staff costs	2,4	(1.7)	(1.8)	(3.5)	(2.2)
Property maintenance	2	(23.7)	(14.1)	(37.8)	(22.6)
Travel	2	(4.6)	–	(4.6)	(4.7)
Utilities	2	(2.9)	–	(2.9)	(2.7)
Housekeeping and hospitality	2	(2.2)	(0.1)	(2.3)	(2.3)
Other	2,3	(10.2)	(0.3)	(10.5)	(8.8)
Total net expenditure		(49.6)	(17.4)	(67.0)	(47.4)
Excess of funding over net expenditure		–	–	–	–

The accounting policies are summarised on pages 63 to 70. 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 Other Comprehensive Income and Expenditure, the Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Reserves on pages 58 to 62. The notes on pages 63 to 89 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 93), funding received in respect of the Sovereign Grant (and any draw down from the Sovereign Grant Reserve) is recognised in the Statement of Income and Expenditure in the year.

STATEMENT OF OTHER COMPREHENSIVE INCOME AND EXPENDITURE

<i>Year to 31 March</i>	Note	Core £m	Reservicing £m	2019 £m	2018 £m
Excess of funding over net expenditure		–	–	–	–
Actuarial gain for the year (Royal Households Group Pension Scheme)	5	1.4	–	1.4	0.7
Total recognised gains relating to the year		<u>1.4</u>	<u>–</u>	<u>1.4</u>	<u>0.7</u>

STATEMENT OF FINANCIAL POSITION

<i>As at 31 March</i>		2019	2018
	Note	£m	£m
Non-current assets			
Property, plant and equipment	8	20.5	16.1
Intangible assets	7	<u>0.1</u>	<u>0.2</u>
Total non-current assets		<u>20.6</u>	<u>16.3</u>
Current assets			
Inventories	9	0.5	0.5
Trade and other receivables	10	9.5	8.6
Cash and cash equivalents	11	54.0	39.0
Total current assets		<u>64.0</u>	<u>48.1</u>
Total assets		<u>84.6</u>	<u>64.4</u>
Current liabilities			
Trade and other payables	12	(17.1)	(12.1)
Non-current liabilities			
Pension scheme liability	5	(1.7)	(3.1)
Total liabilities		<u>(18.8)</u>	<u>(15.2)</u>
Net assets		<u>65.8</u>	<u>49.2</u>
Reserves			
Non-current assets reserve		20.6	16.3
Other retained reserve		2.5	2.5
Sovereign Grant reserve		44.4	33.5
Pension scheme reserve		(1.7)	(3.1)
Total reserves		<u>65.8</u>	<u>49.2</u>

Sir Michael Stevens

Keeper of the Privy Purse

10 June 2019

STATEMENT OF CASH FLOWS

<i>Year to 31 March</i>	2019	2019	2018	2018
	£m	£m	£m	£m
Reconciliation of total net expenditure to funding				
Total net expenditure		(67.0)		(47.4)
Depreciation and amortisation	2.1		1.7	
(Increase) in receivables	(0.9)		(1.4)	
Increase in payables	5.0		1.3	
Disposal of assets	0.4		-	
		<u>6.6</u>		<u>1.6</u>
Net cash outflow from operating activities		(60.4)		(45.8)
Cash flows from investing activities				
Capital expenditure	(6.8)		(4.4)	
Net cash outflow from investing activities		<u>(6.8)</u>		<u>(4.4)</u>
Net cash outflow before funding		(67.2)		(50.2)
Cash flows from financing activities				
Grant funding received	82.2		76.1	
Contribution for Frogmore workshop	-		3.4	
Net cash inflow from financing activities		<u>82.2</u>		<u>79.5</u>
Net increase in cash and cash equivalents		<u>15.0</u>		<u>29.3</u>
Reconciliation of cash and cash equivalents		2019		2018
		£m		£m
As at 1 April		39.0		9.7
Net increase		15.0		29.3
As at 31 March		<u>54.0</u>		<u>39.0</u>

STATEMENT OF CHANGES IN RESERVES

	Non-current assets reserve	Other retained reserve	Sovereign Grant reserve	Pension scheme reserve	Total reserves
	£m	£m	£m	£m	£m
As at 1 April 2018	16.3	2.5	33.5	(3.1)	49.2
Actuarial gain on RH Group Pension Scheme	–	–	–	1.4	1.4
Transfer to reserves	–	–	15.2	–	15.2
Transfers between reserves	4.3	–	(4.3)	–	–
Excess/(deficit) of funding over net expenditure	–	–	–	–	–
As at 31 March 2019	20.6	2.5	44.4	(1.7)	65.8

	Non-current assets reserve	Other retained reserve	Sovereign Grant reserve	Pension scheme reserve	Total reserves
	£m	£m	£m	£m	£m
As at 1 April 2017	13.6	1.8	4.8	(3.5)	16.7
Actuarial gain on RH Group Pension Scheme	–	–	–	0.7	0.7
Transfer to/(from) reserves	–	–	32.1	(0.3)	31.8
Transfers between reserves	2.7	0.7	(3.4)	–	–
Excess/(deficit) of funding over net expenditure	–	–	–	–	–
As at 31 March 2018	16.3	2.5	33.5	(3.1)	49.2

SOVEREIGN GRANT RESERVE

Sovereign Grant Reserve	Core	Reservicing	2019	2018
	£m	£m	£m	£m
Balance brought forward	7.2	26.3	33.5	4.8
Transfer (from)/to reserve	(0.3)	15.5	15.2	32.1
Transfer from/(to) non-current assets reserve	0.7	(5.0)	(4.3)	(3.4)
Balance carried forward	<u>7.6</u>	<u>36.8</u>	<u>44.4</u>	<u>33.5</u>

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.

If the amount of the Sovereign Grant for a financial year exceeds the audited net relevant expenditure for that year, the surplus will be paid into the Reserve, which may be drawn down in future years as required. To ensure that the Grant remains at an appropriate level, if the Reserve exceeds 50% of the Sovereign Grant used in that year, the Royal Trustees may specify a lower future grant amount than would otherwise have been implied by the formula included in the Sovereign Grant Act 2011. This would be done in a way which they expect will result in the adjusted value of the Reserve Fund being about 50% of the audited net relevant expenditure at the end of the year for which the Grant is being calculated. The Reserve at 31 March 2019 meets the criteria for a potential reduction in the future grant. However, this is solely because the first full year's funding for the Buckingham Palace Reservicing was received in the year ended 31 March 2018, with associated expenditure to be incurred over the next ten years of the programme (a total expenditure of £369 million). The current excess Reserve is therefore a matter of timing in the early years of a ten year programme.

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 Michael Stevens

Keeper of the Privy Purse

10 June 2019

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 93 to 95) and have been prepared in accordance with applicable accounting standards. The accounts have been prepared on an accruals basis.

The financial statements have been prepared in accordance with the 2018-19 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) 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 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, which is in accordance with the Accounts Direction issued by HM Treasury.

The Sovereign Grant has applied the following standards for the first time for the annual reporting period ended 31 March 2019: IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments (2014). Implementation has had minimal impact on the Sovereign Grant annual report and accounts. Further policy details are set out in Notes 1 (b) and (h) respectively.

IFRS 16 Accounting for Leases comes into effect for accounting periods starting after 1 January 2019. The implementation date for entities reporting under the FReM is different and the IFRS will be effective in the Sovereign Grant accounts in the year ending 31 March 2021. IFRS 16 provides a single lessee accounting model, effectively removing the distinction between operating and finance leases. Lessees will recognise right of use assets and corresponding liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. This is a change from the existing treatment as it eliminates most operating lease accounting, in which the annual rental cost is reported in the Statement of Income and Expenditure each year. From implementation, all material long term leases will have an impact on the Statement of Financial Position as well. The Sovereign Grant intends to apply the simplified transition approach and will not restate the comparative amounts (which

relate to the year ending 31 March 2020). Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease amounts).

A review of the Sovereign Grant leasing arrangements has been performed and the majority of current commitments relate to short-term or low value leases which will be recognised on a straight-line basis as expenditure in the Statement of Income and Expenditure.

It is estimated that right of use assets of approximately £2.7 million will be recognised by 31 March 2021, with associated lease liabilities of approximately £0.7 million due within one year and £2.0 million falling due after one year. The lease expense will be recognised in the Statement of Income and Expenditure. Financing cash flows will include approximately £0.6 million due to repayment of the principal portion of the lease liabilities which will be classified as cash flows from financing activities.

b) Income

The Sovereign Grant – This is recognised annually on a receivable basis, under the terms of the Sovereign Grant Act 2011. 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 93), funding received in respect of the Sovereign Grant (and any draw down from the Sovereign Grant Reserve) is recognised in the Statement of Income and Expenditure 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 in the Statement of Income and Expenditure in the year in which they are receivable, when the annual performance obligations under the contract are complete.

Rental income – Rental income for the provision of property to tenants is recognised on a straight-line basis over the term of the agreement.

All other income is accounted for in the Statement of Income and Expenditure in the year in which it is receivable, when performance obligations are complete.

Any income received in advance of performance 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.

Rental receipts are credited to the Statement of Income and Expenditure on a straight-line basis over the period of the agreement. Properties which are all held in right of the Crown are not capitalised within these accounts in accordance with the Accounts Direction issued by HM Treasury (See Appendix 3 page 93).

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 Digital, 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. This includes costs relating to the infrastructure such as electrical and data cabling and pipework associated with heating and drainage systems which are deemed to be part of the fabric of the building. Where improvements are made to the buildings that are deemed to be on separately identifiable items of plant and equipment or relate to the conversion of bedrooms to offices, they are capitalised respectively as plant and machinery or property improvements 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 non-current assets reserve is established. Depreciation charged over the life of the asset is accordingly matched by a credit from the non-current assets reserve to the Statement of Income and Expenditure.

Further information is given in Note 6 to the accounts.

Depreciation

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

Property Improvements and Infrastructure

- Automatic fire detection 10 years
- Fire compartmentation 30 years
- General building improvements¹ 10-30 years
- Refurbishments (commercial lettings only) 7 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

¹ General building improvements includes new buildings and conversion of bedrooms to offices.

- Information technology equipment 3 to 5 years
- Helicopter operation equipment 5 years
- Lifts 20 years
- Motor Vehicles 3 to 10 years
- Small plant and tools 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 calculated 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 based upon an assessment of expected credit loss over the lifetime of the debt.

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.

The only material receivable at 31 March is the annual Facilities Management fee due from Royal Collection Trust, a related party. As a related party, the credit risk is assessed as low and there is therefore no allowance for impairment.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand. Most cash is held with the Government Banking Service and the credit risk is therefore assessed as low.

(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 Pension 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 disclosed 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 Other 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 discounted values.

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 and Other retained 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 Royal Households Group 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 proportion of the project that has been completed. This proportion is provided by the property management team. Annual works programme project accruals as at 31 March 2019 were £5.0 million (2017-18: £3.6 million).

Buckingham Palace Reservicing Programme accruals

Similarly, the accruals for work completed on the Reservicing programme but not yet billed are calculated on the basis of an estimate of the proportion of the project that has been completed. This proportion is provided by the programme managers. BPR programme accruals as at 31 March 2019 are £2.4 million (2017-18: £0.5 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 to be taken as extended holiday at a later date. The estimated accrual is based on a combination of actual leave entitlement and average carry forward or banked leave.

2. Segmental Analysis

All material revenues are derived from the United Kingdom.

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.

In addition, the Lord Chamberlain's Committee separately monitors the activities of the Buckingham Palace Reservicing programme (BPR) and associated expenditure.

<i>Year to 31 March 2019</i>	PSO	PPTO	MOH	LCO	BPR	Total
	£m	£m	£m	£m	£m	£m
Income						
Property rental income	–	3.2	–	–	–	3.2
Facilities management charges	–	7.0	–	–	–	7.0
Recharges and other income	0.5	4.2	2.7	0.2	–	7.6
	<u>0.5</u>	<u>14.4</u>	<u>2.7</u>	<u>0.2</u>		17.8
Payroll costs	(4.0)	(10.5)	(6.3)	(1.3)	(1.1)	(23.2)
Other staff costs	(0.1)	(1.0)	(0.4)	(0.2)	(1.8)	(3.5)
Property maintenance	–	(23.3)	(0.4)	–	(14.1)	(37.8)
Travel	–	(4.6)	–	–	–	(4.6)
Utilities	–	(2.9)	–	–	–	(2.9)
Housekeeping and hospitality	–	(0.1)	(2.1)	–	(0.1)	(2.3)
Other	(0.6)	(8.5)	(1.0)	(0.1)	(0.3)	(10.5)
Total net expenditure	<u>(4.2)</u>	<u>(36.5)</u>	<u>(7.5)</u>	<u>(1.4)</u>	<u>(17.4)</u>	(67.0)

Facilities Management Charges amounting to £7.0 million (2017-18: £6.0 million) from The Royal Collection Trust amount to more than 10% of the Core Sovereign Grant annual revenue and are shown under PPTO. Note 15 provides further detail of recharges and other income.

Other expenditure includes depreciation and amortisation of £2.1 million and Information Systems costs of £3.8 million under PPTO (2017-18: £1.7 million and £3.0 million respectively). Telecommunications is now included in Information Systems. Previously this

was included in Utilities, leading to a reclassification between expenses in the prior year of £0.2 million.

Responsibility for the management of Royal Travel transferred from LCO to PPTO with effect from 1 October 2018. Accordingly, Royal Travel has been reallocated to PPTO from LCO in 2018-19, which has been reflected in the comparatives for 2017-18. Staff numbers have been similarly restated in Note 4 below.

<i>Year to 31 March 2018</i>	PPTO		LCO		BPR	Total
	PSO	(as restated)	MOH	(as restated)		
	£m	£m	£m	£m	£m	£m
Income						
Property rental income	–	3.3	–	–	–	3.3
Facilities management charges	–	6.0	–	–	–	6.0
Recharges and other income*	0.3	5.0	2.5	0.2	–	8.0
	<u>0.3</u>	<u>14.3</u>	<u>2.5</u>	<u>0.2</u>	<u>–</u>	<u>17.3</u>
Payroll costs	(3.7)	(8.6)	(6.1)	(2.6)	(0.4)	(21.4)
Other staff costs	(0.2)	(0.9)	(0.2)	(0.3)	(0.6)	(2.2)
Property maintenance	–	(19.8)	–	–	(2.8)	(22.6)
Travel	–	(4.5)	–	(0.2)	–	(4.7)
Utilities	–	(2.7)	–	–	–	(2.7)
Housekeeping and hospitality	–	(0.1)	(2.2)	–	–	(2.3)
Other	(0.3)	(6.9)	(0.8)	(0.5)	(0.3)	(8.8)
Total net expenditure	<u>(3.9)</u>	<u>(29.2)</u>	<u>(6.8)</u>	<u>(3.4)</u>	<u>(4.1)</u>	<u>(47.4)</u>

*Excluding £3.4m funding received from The Royal Collection Trust for the construction of the Frogmore workshop and taken to reserves.

3. Other Expenditure

	2019	2018
	£m	£m
Amortisation of software (Note 7)	0.1	0.1
Depreciation of property, plant and equipment (Note 8)	2.0	1.6
Other costs	8.4	6.9
	<u>10.5</u>	<u>8.6</u>

Auditors' remuneration of £52,000 was charged for the year by the National Audit Office (2017-18: £54,000). There were no non-audit fees paid to the auditors (2017-18: 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:

	2019	2018 (as restated)
Lord Chamberlain	1	1
Private Secretary's Office	72	63
Privy Purse and Treasurer's Office	159	154
Master of the Household's Department	161	161
Lord Chamberlain's Office	52	54
	445	433
Buckingham Palace Reservicing	18	5
	463	438

This excludes the element of staff time paid for from any other sources of income. Where staff work part-time they are recorded according to the proportion of their time devoted to, and paid by, the Sovereign Grant. 9 were on fixed term contracts (2017-18: 22).

The total number of FTE staff as at 31 March 2019 employed by the Royal Household and paid for in whole or in part by the Sovereign Grant amounted to 555 (2017-18: 528).

This includes staff that provide shared services to related parties and are charged directly from the payroll. During the year an average of FTE 51 were recharged in this way (2017-18: FTE 50).

Where staff are recharged to related parties through a management charge invoice, the recovery of costs is shown within recharge income. During the year an average of FTE 39 were recharged in this way resulting in a charge of £1.3 million (2017-18: FTE 36, £1.2 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

	Core	BPR	2019	2018
	£m	£m	£m	£m
Salaries	17.2	0.9	18.1	16.8
Temporary staff	0.3	–	0.3	0.2
National insurance	1.7	0.1	1.8	1.7
Pension contributions	2.9	0.1	3.0	2.7
	22.1	1.1	23.2	21.4

For staff providing a shared service to related parties, only the element paid for by the Sovereign Grant is included above (shared service is allocated directly from the payroll). For staff whose services are recharged to related parties, all of their costs are included above (recovery of cost is accounted for as income).

The total cost of FTE staff employed by the Royal Household including all of those providing a shared service amounted to £25.7 million (2017-18: £23.7 million).

Details of the remuneration of members of the Lord Chamberlain's Committee can be found in the Remuneration and Staff Report on page 41.

Other Staff Costs

	Core	BPR	2019	2018
	£m	£m	£m	£m
Agency staff	0.4	1.6	2.0	0.9
Other (including staff travel, training, recruitment)	1.3	0.2	1.5	1.3
	1.7	1.8	3.5	2.2

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 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 2017 and updates that valuation for IAS19 annually. The total liabilities of the scheme as at 31 March 2019 of £108.3 million (2017-18: £112.0 million) are disclosed in the resource accounts of the Consolidated Fund Account. The Sovereign Grant funds the employment costs of 36 of the 58 active members of the scheme as at 31 March 2019. 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 2018-19, employer's contributions of £0.3 million were payable to the scheme (2017-18: £0.3 million). For 2019-20, employer's contributions are expected to be £0.3 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 Board of Trustees is composed of representatives of both the Royal Household and its employees and pensioners and is legally separate from the Household. 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.

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 up to 31 March 2007, 1/70 for service up to 31 March 2019, and then 1/90.

The Royal Households Group Pension Scheme is a defined benefit plan multi-employer scheme, that shares risks between various related parties with each employer being jointly and severally liable for their respective obligations under the scheme. As well as covering eligible employees paid from the Sovereign Grant, the scheme covers those employed by the Privy Purse, The Royal Collection Trust and the household of the Prince of Wales.

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 2017 and showed a deficit of £4.5 million. Of this, £2.2 million was notionally attributable to the Sovereign Grant. The total market value of the assets of the whole scheme was £99.4 million and this value of assets was sufficient to cover 96% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Following this valuation, the Sovereign Grant employer's contribution rate is 30.4% of pensionable salaries in respect of current accrual for its employees (2017-18: 30.4%) from 1 April 2018, plus a lump sum payment of £0.2 million each year for three years from 1 April 2018 to 31 March 2021. It is assumed that these measures, along with investment returns from return-seeking assets, will be sufficient to eliminate the Sovereign Grant share of the past service deficit over three years and meet the current service cost. The next funding valuation is due no later than 31 December 2020, at which progress towards full funding will be reviewed.

The results of the latest funding valuation at 31 December 2017 have 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 2017 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 2019.

Assumptions used

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

Actuarial assumptions adopted as at 31 March (% pa)	2019	2018	2017	2016	2015
Discount rate for scheme liabilities	2.4	2.6	2.6	3.5	3.3
Rate of general long-term increase in salaries	3.7	3.5	3.6	3.5	3.5
Rate of price inflation (RPI)	3.3	3.1	3.2	3.1	3.1
Rate of price inflation (CPI)	2.2	2.0	2.1	2.0	2.0
Rate of increase to pensions in payment	3.2	3.0	3.1	3.2	3.0

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions and reflect the nature and term of the scheme's liabilities. An estimate was made of the impact of Guaranteed Minimum Pension equalisation, which found it to be immaterial.

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

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)	2019	2018	2017	2016	2015
Life expectancy for male currently aged 65	21.5	22.6	22.5	22.4	22.4
Life expectancy for female currently aged 65	23.4	24.7	24.6	24.5	24.4
Life expectancy at 65 for male currently aged 45	22.8	24.3	24.2	24.1	24.1
Life expectancy at 65 for female currently aged 45	24.9	26.6	26.5	26.4	26.3

Scheme assets are stated at their market values at 31 March 2019.

Reconciliation of funded status to the statement of financial position

As at 31 March	2019	2018	2017	2016	2015
	£m	£m	£m	£m	£m
Fair value of scheme assets	33.0	31.0	29.1	23.7	23.9
Present value of funded defined benefit obligations	(34.7)	(34.1)	(32.6)	(26.5)	(27.4)
Net pension liability recognised on the statement of financial position	(1.7)	(3.1)	(3.5)	(2.8)	(3.5)

There is a net pension liability of £1.7 million as at 31 March 2019. The amount of this net pension liability has a consequential effect on reserves.

Changes to the fair value of scheme assets during the year

As at 31 March	2019	2018
	£m	£m
Fair value of scheme assets as at the beginning of the year	31.0	29.1
Movement in year:		
Contributions by employer	0.7	0.6
Administration costs incurred	(0.1)	(0.1)
Net benefits paid out	(0.7)	(0.6)
	<u>(0.1)</u>	<u>(0.1)</u>
<i>Actual return on scheme assets:</i>		
Interest income on scheme assets	0.8	0.7
Remeasurement gains on scheme assets: return on scheme assets in excess of that recognised in net interest	1.3	1.3
	<u>2.1</u>	<u>2.0</u>
Fair value of scheme assets as at 31 March	<u><u>33.0</u></u>	<u><u>31.0</u></u>

Fair value by asset class, all quoted in an active market

As at 31 March	2019	2018	2017
	£m	£m	£m
UK equities	3.5	3.3	3.1
Overseas equities	12.0	14.1	13.9
Fixed interest gilts	2.4	2.4	1.8
Index-linked gilts	11.4	7.7	7.6
Property	3.2	3.1	2.4
Cash/net current assets	0.5	0.4	0.3
	<u><u>33.0</u></u>	<u><u>31.0</u></u>	<u><u>29.1</u></u>

Changes to the present value of the defined benefit obligation during the year

As at 31 March	2019	2018
	£m	£m
Defined benefit obligations at the beginning of the year	34.1	32.6
Movement in year:		
Current service cost	0.5	0.7
Interest expense on defined benefit obligations	0.9	0.8
Actuarial losses/(gains) on scheme liabilities arising from:		
changes in financial assumptions	2.8	(0.6)
changes in demographic assumptions	(1.6)	-
experience	(1.3)	1.2
Net benefits paid out	(0.7)	(0.6)
Defined benefit obligations as at 31 March	<u>34.7</u>	<u>34.1</u>

Analysis of the defined benefit obligation by membership category

As at 31 March	2019	2018
	£m	£m
Current employee benefits	12.8	18.5
Deferred member benefits	10.2	7.9
Pensioner member benefits	11.7	7.7
Total defined benefit obligation	<u>34.7</u>	<u>34.1</u>

The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the scheme as a whole, the duration is around 20 years.

Movement in the deficit of the scheme

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

As at 31 March	2019	2018
	£m	£m
Deficit as at the beginning of the year	(3.1)	(3.5)
Movement in year:		
<i>Amounts (charged)/ credited against income and expenditure:</i>		
Contributions by employer	0.7	0.6
Current service cost	(0.5)	(0.7)
Administration costs incurred	(0.1)	(0.1)
Interest expense on defined benefit obligations	(0.9)	(0.8)
Interest income on scheme assets	0.8	0.7
<i>Pension expense recognised in Statement of Income and Expenditure</i>	-	(0.3)
<i>Amounts (charged)/ credited against other comprehensive income and expenditure:</i>		
Remeasurement gains on scheme assets: return on scheme assets in excess of that recognised in net interest	1.3	1.3
Actuarial (losses)/gains due to changes in financial assumptions	(2.8)	0.6
Actuarial gains/(losses) due to changes in demographic assumptions	1.6	-
Actuarial gains/(losses) due to liability experience	1.3	(1.2)
<i>Actuarial gains recognised in Statement of Other Comprehensive Income and Expenditure</i>	1.4	0.7
Deficit as at the end of the year	<u>(1.7)</u>	<u>(3.1)</u>
Year to 31 March	2019	2018
	£m	£m
Cumulative amount of losses recognised in Statement of Other Comprehensive Income and Expenditure	(0.5)	(1.9)

History of experience gains and losses

	2019	2018	2017	2016	2015
	£m	£m	£m	£m	£m
Experience gains/(losses) on scheme assets	1.3	1.3	4.8	(0.6)	2.4
Experience gains/(losses) on scheme liabilities	1.3	(1.2)	0.2	0.3	0.5

Risks associated with the scheme

The scheme exposes the employers to some 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 (namely equities, and properties) 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 - A significant proportion of the Scheme's benefit obligations are linked to inflation, and higher inflation leads to higher liabilities (although there are some caps on the level of inflationary increases in place to protect against extreme inflation).

Most of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase will also increase the deficit.

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

The trustees insure certain benefits which are payable on death before retirement.

Sensitivity to key assumptions

The key assumptions used for IAS 19 are: discount rate, inflation, 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:

	Change £m	New value £m
<i>Following a 0.25% decrease in the discount rate, as at 31 March 2019:</i>		
Assets	-	33.0
Defined benefit obligations	(1.6)	(36.3)
(Deficit)	<u>(1.6)</u>	<u>(3.3)</u>

Following a 0.25% increase in the inflation assumption (excluding salary increases), as at 31 March 2019:

Assets	-	33.0
Defined benefit obligations	(1.3)	(36.0)
(Deficit)	<u>(1.3)</u>	<u>(3.0)</u>

Following a one year improvement in life expectancies, as at 31 March 2019:

Assets	-	33.0
Defined benefit obligations	(1.2)	(35.9)
(Deficit)	<u>(1.2)</u>	<u>(2.9)</u>

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	2020
	£m
Current service cost	0.4
Administration Expenses	0.1
Interest cost	-
Total estimated pension expense	<u><u>0.5</u></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. For 2018-19, employer’s contributions of £2.0 million were payable to the scheme (2017-18: £1.8 million). For 2019-20, employer’s contributions are expected to be £2.0 million.

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 Digital, Culture, Media and Sport. The statutory duties of the Secretary of State for Digital, 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 Digital, Culture, Media and Sport retains 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 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 2018	0.8
Additions	–
Disposals	(0.1)
At 31 March 2019	<u>0.7</u>
Amortisation	
At 1 April 2018	0.6
Charge for the year	0.1
Disposals	(0.1)
At 31 March 2019	<u>0.6</u>
Net book value	
At 31 March 2019	<u>0.1</u>
At 1 April 2018	<u>0.2</u>
	Software £m
Cost	
At 1 April 2017	0.7
Additions	0.1
Disposals	–
At 31 March 2018	<u>0.8</u>
Amortisation	
At 1 April 2017	0.5
Charge for the year	0.1
Disposals	–
At 31 March 2018	<u>0.6</u>
Net book value	
At 31 March 2018	<u>0.2</u>
At 1 April 2017	<u>0.2</u>

8. Property, Plant and Equipment

	Property Improvements & Infrastructure £m	Furnishings & Equipment £m	Plant & Machinery £m	AIC £m	Total £m
Cost					
At 1 April 2018	21.8	2.3	7.9	1.5	33.5
Transfers	0.1	–	1.1	(1.2)	–
Additions	4.6	0.3	0.7	1.2	6.8
Disposals	(0.9)	(0.3)	(1.0)	(0.2)	(2.4)
At 31 March 2019	25.6	2.3	8.7	1.3	37.9
Depreciation					
At 1 April 2018	10.3	1.9	5.2	–	17.4
Charge for the year	0.8	0.1	1.1	–	2.0
Disposals	(0.8)	(0.3)	(0.9)	–	(2.0)
At 31 March 2019	10.3	1.7	5.4	–	17.4
Net book value					
At 31 March 2019	15.3	0.6	3.3	1.3	20.5
At 1 April 2018	11.5	0.4	2.7	1.5	16.1

“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 2017	18.3	2.3	6.8	2.0	29.4
Transfers	3.4	–	0.6	(4.0)	–
Additions	0.1	0.1	0.6	3.5	4.3
Disposals	–	(0.1)	(0.1)	–	(0.2)
At 31 March 2018	21.8	2.3	7.9	1.5	33.5
Depreciation					
At 1 April 2017	9.6	1.9	4.5	–	16.0
Charge for the year	0.7	0.1	0.8	–	1.6
Disposals	–	(0.1)	(0.1)	–	(0.2)
At 31 March 2018	10.3	1.9	5.2	–	17.4
Net book value					
At 31 March 2018	11.5	0.4	2.7	1.5	16.1
At 1 April 2017	8.7	0.4	2.3	2.0	13.4

9. Inventories

As at 31 March	2019 £m	2018 £m
Wine and spirits	0.4	0.4
Other	0.1	0.1
	<u>0.5</u>	<u>0.5</u>

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

10. Trade and Other Receivables

As at 31 March	2019 £m	2018 £m
Recharges and other receivables	1.9	1.6
Prepayments and accrued income	7.6	7.0
	<u>9.5</u>	<u>8.6</u>

Trade and Other Receivables include £6.1 million (2017-18: £5.9 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.

11. Cash and Cash Equivalents

As at 31 March	2019 £m	2018 £m
Government Banking Service	51.0	38.3
Commercial banks and cash in hand	3.0	0.7
	<u>54.0</u>	<u>39.0</u>

Cash held in the Exchequer's Government Banking Service account reflects the timing difference between the receipt of the first full year's funding for the 10 year Buckingham Palace Reservicing programme and the start of expenditure on the programme.

12. Trade and Other Payables: Amounts falling due within one year

As at 31 March	2019 £m	2018 £m
Trade payables	3.3	2.2
Rent deposits	0.1	0.1
Taxes and social security	1.6	1.4
Other payables	1.9	1.5
Accruals	10.2	6.9
	<u>17.1</u>	<u>12.1</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

Receivables from tenants

The total of future minimum rentals receivable under non-cancellable agreements are receivable as follows:

	2019 £m	2018 £m
Within one year	1.4	1.1
Later than one year and not later than five years	0.5	0.6
	<u>1.9</u>	<u>1.7</u>

Obligations payable under operating leases

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

	2019 £m	2018 £m
Within one year	1.0	0.9
Later than one year and not later than five years	0.3	0.4
	<u>1.3</u>	<u>1.3</u>

14. Other Commitments

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

As at 31 March	Core £m	BPR £m	2019 £m	2018 £m
Within one year	26.9	31.1	58.0	53.2
Later than one year and not later than five years	6.5	53.9	60.4	17.0
	33.4	85.0	118.4	70.2

This expenditure comprises:

As at 31 March	Core £m	BPR £m	2019 £m	2018 £m
Other Staff costs – Agency cost contract	-	10.0	10.0	7.3
Property Maintenance				
• Contracted	8.2	11.1	19.3	17.3
• Authorised	21.3	63.9	85.2	44.3
Royal Train – service contract	0.3	-	0.3	0.3
Helicopter – maintenance contracts	0.4	-	0.4	1.0
Helicopter replacement – authorised	3.2	-	3.2	-
	33.4	85.0	118.4	70.2

There were no capital commitments included within contracted commitments (2017-18: nil) and there were £6.0 million included within authorised Core commitments (2017-18: nil).

15. Related Party Transactions

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

	2019	2018
	£m	£m
Income recovered from:		
The Royal Collection Trust	14.3	16.1
<i>Balance outstanding</i>	<i>7.0</i>	7.2
Privy Purse	1.3	0.9
<i>Balance outstanding</i>	<i>0.2</i>	0.1
Other Royal Households	1.8	1.1
<i>Balance outstanding</i>	<i>0.6</i>	0.3
Historic Royal Palaces	0.1	0.1
<i>Balance outstanding</i>	-	-

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 (and in 2017-18 the funding for the Frogmore workshop).

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.

	2019	2018
	£m	£m
Expenditure charged by:		
The Royal Collection Trust	(0.1)	(0.2)
<i>Balance outstanding</i>	<i>(0.1)</i>	(0.1)
Privy Purse	(0.6)	(0.2)
<i>Balance outstanding</i>	<i>(0.1)</i>	(0.1)
Other Royal Households	(0.3)	(0.4)
<i>Balance outstanding</i>	<i>(0.3)</i>	(0.1)

Charges to the Royal Household include 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 transactions 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 had a number of transactions with other government departments as follows:

	2019	2018
	£m	£m
Income recovered from:		
Foreign and Commonwealth Office	0.8	0.4
<i>Balance outstanding</i>	<i>0.3</i>	-
Ministry of Defence	0.1	0.1
<i>Balance outstanding</i>	-	-
Metropolitan Police	0.1	0.1
<i>Balance outstanding</i>	-	-
Department for Digital, Culture, Media & Sport	0.4	0.4
<i>Balance outstanding</i>	-	-
Expenditure charged by:		
Cabinet Office	-	-
<i>Balance outstanding (held as agent)</i>	<i>(0.9)</i>	<i>(0.7)</i>
Department for Digital, Culture, Media & Sport	-	-
<i>Balance outstanding (held as agent)</i>	<i>(0.1)</i>	<i>(0.1)</i>
Ministry of Defence	(0.7)	(0.6)
<i>Balance outstanding</i>	<i>(0.6)</i>	-

16. Issue of Accounts

On 3 June 2019 the financial statements were approved by the Accounting Officer and Audit and Risk Assurance Committee and on 10 June 2019 were approved by the Lord Chamberlain's Committee prior to certification by the Comptroller and Auditor General on 13 June 2019. On 13 June 2019 the financial statements are deemed to be authorised for issue.

APPENDICES (this section is not subject to audit)

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

Property maintenance

	2019 £m Core	2019 £m BPR	2019 £m Total	2018 £m Total
Projects				
• construction	16.8	9.4	26.2	13.1
• fees	1.8	4.7	6.5	5.4
Reactive maintenance	5.1	–	5.1	4.1
	<u>23.7</u>	<u>14.1</u>	<u>37.8</u>	<u>22.6</u>

Travel

	2019 £m	2018 £m
Air travel		
• Helicopters (includes operating lease payments of £0.7 million)	1.7	1.8
• Fixed wing (large)	0.8	0.3
• Fixed wing (small)	0.9	1.0
• Scheduled	0.2	0.5
Rail travel (includes operating lease payments of £0.2 million)	0.8	0.8
Motor vehicles	0.2	0.3
	<u>4.6</u>	<u>4.7</u>

Utilities

	2019 £m Core	2019 £m BPR	2019 £m Total	2018 £m Total
Rates and council tax	1.4	–	1.4	1.3
Electricity	0.9	–	0.9	0.7
Gas	0.4	–	0.4	0.5
Water	0.2	–	0.2	0.2
	<u>2.9</u>	<u>–</u>	<u>2.9</u>	<u>2.7</u>

Housekeeping and hospitality

	2019 £m Core	2019 £m BPR	2019 £m Total	2018 £m Total
Food and drink	1.6	0.1	1.7	1.6
Cleaning, laundry and other	0.6	–	0.6	0.7
	<u>2.2</u>	<u>0.1</u>	<u>2.3</u>	<u>2.3</u>

Other

	2019 £m Core	2019 £m BPR	2019 £m Total	2018 £m Total
Depreciation, and amortisation of software	2.1	–	2.1	1.7
Information Systems and telecoms	3.7	0.1	3.8	3.0
Insurance, legal advice and other professional services	1.4	0.1	1.5	1.4
Printing, postage and stationery	1.1	–	1.1	1.1
Other	1.9	0.1	2.0	1.6
	<u>10.2</u>	<u>0.3</u>	<u>10.5</u>	<u>8.8</u>

APPENDIX 2: FIVE YEAR INFORMATION

<i>Year to 31 March</i>	2019	2018	2017	2016	2015
	£m	£m	£m	£m	£m
Funding received:					
Grants	82.2	76.1	42.8	40.1	37.9
Transfer to Sovereign Grant Reserve	(15.2)	(28.7)	(0.9)	(0.3)	(2.2)
	67.0	47.4	41.9	39.8	35.7
Income					
Property rental income	3.2	3.3	3.1	2.9	2.8
Facilities management charges	7.0	6.0	5.3	5.1	4.5
Recharges for functions and other income	7.6	11.4	6.5	5.9	6.0
Transfer to Non-current assets reserve	–	(3.4)	–	–	–
	17.8	17.3	14.9	13.9	13.3
Payroll costs	(23.2)	(21.4)	(20.3)	(19.5)	(18.7)
Other staff costs	(3.5)	(2.2)	(1.4)	(1.4)	(1.2)
Property maintenance	(37.8)	(22.6)	(17.8)	(16.3)	(11.7)
Travel	(4.6)	(4.7)	(4.5)	(4.0)	(5.1)
Utilities	(2.9)	(2.7)	(3.1)	(3.3)	(3.4)
Housekeeping and hospitality	(2.3)	(2.3)	(2.2)	(2.1)	(2.1)
Other	(10.5)	(8.8)	(7.5)	(7.1)	(6.8)
Total net expenditure	(67.0)	(47.4)	(41.9)	(39.8)	(35.7)
Excess of funding over net expenditure	–	–	–	–	–

PERFORMANCE INDICATORS AND OPERATING RATIOS

	2019	2018	2017	2016	2015
Suppliers paid within:					
15 days of receipt of invoice	45%	45%	54%	45%	49%
30 days of receipt of invoice	93%	94%	93%	94%	94%
Staff Numbers (average FTE)	463	438	436	431	426

APPENDIX 3: SOVEREIGN GRANT ACCOUNTS DIRECTION

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

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

Paula Diggle

Treasury Officer of Accounts

7 June 2013

SCHEDULE 1: ACCOUNTING AND DISCLOSURE REQUIREMENTS

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

1. The disclosure exemptions permitted by the Acts and any Schedules or Regulations thereto shall not apply to the Sovereign Grant accounts unless specifically approved by the Treasury.
2. The Acts require certain information to be disclosed in a Directors’ Report. To the extent that it is appropriate, information relating to the Sovereign Grant and Sovereign Grant Reserve shall be contained in the Operating and Financial Review for the financial year, which shall be signed and dated by the Keeper of the Privy Purse or other proper officer.
3. The Royal Household shall take into consideration the requirements of The Acts as they apply to non-quoted companies (to the extent they can be applied to the circumstances of the Sovereign Grant).
4. When preparing the statement of comprehensive income for the Sovereign Grant accounts, the Royal Household shall have regard to the requirements of the profit and loss account Format 2 as prescribed in Schedule 4 to the Companies Act 1985 and for periods beginning after 6 April 2008, the subsequent re-enactment.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.

