



**The Sovereign Grant
and
Sovereign Grant Reserve
*Annual Report and Accounts
2012-13***



SOVEREIGN GRANT ACT 2011

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and
Sovereign Grant Reserve**
Annual Report and Accounts
2012-13

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

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FRONT COVER: HM The Queen and The Duke of Edinburgh arrive in Perth, Scotland.
Photograph provided courtesy of Andrew Milligan/PA Wire

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THE SOVEREIGN GRANT

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

The Queen's official expenditure is met from public funds in exchange for the surrender by The Queen of the revenue from the Crown Estate. The Sovereign Grant was set at £31.0 million for 2012-13.

Official expenditure met by the Sovereign Grant in 2012-13 amounted to £33.3 million, an increase of £0.9 million (2.6%) in absolute terms and a decrease of 0.2% in real terms compared to the previous year. The equivalent of the excess of expenditure over the Sovereign Grant of £2.3 million in 2012-13 was drawn down from the Sovereign Grant Reserve. Expenditure met by the Sovereign Grant in 2012-13 includes £1.9 million of VAT (2011-12: £2.7 million).

From 2013-14 the Sovereign Grant will be calculated based on 15% of the income account net surplus of the Crown Estate for the financial year two years previous. The Crown Estate surplus for the financial year 2011-12 amounted to £240.2 million thereby producing a Sovereign Grant of £36.1 million for 2013-14.

THE 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 covered 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 history rather than by constitutional lawyers.

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 of Head of Nation, in which she and the Royal Household must be prepared to react appropriately to unpredictable national events. This requires the institution of Monarchy to be flexible, while maintaining the highest possible standards befitting of the Household of the Head of State.

The Queen's constitutional duties include:

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

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 now is as significant as Her role as Head of State, and can be divided into four key elements – identity, continuity, achievement and service.

Unity and National Identity

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

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

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

Continuity and Stability

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

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

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

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

Achievement and Success

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

Prizes & Awards

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

Events

- The Queen entertains 70,000 people a year at Garden Parties, investitures, receptions, dinners and lunches as a way of acknowledging people's achievements and contributions;
- Themed receptions at Buckingham Palace recognise the achievements and importance of particular sectors and to celebrate and promote aspects of British culture;
- Visits in The Queen's programme to places and projects help to acknowledge their success, importance or uniqueness.

Anniversary Messages

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

- 200,000 congratulatory telegrams to centenarians on their 100th birthdays;
- Over 600,000 messages to couples marking their Diamond Wedding anniversaries.

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

Support of Service

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

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

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

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

THE ROYAL FAMILY

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

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

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

EXPENDITURE FUNDED FROM OTHER SOURCES

Duchy of Lancaster

Income from the Duchy of Lancaster funds the Privy Purse. It is The Queen's private income which after tax is largely used to meet official expenditure incurred by Her Majesty and Other Members of the Royal Family. Accounts for the Duchy of Lancaster are presented to both Houses of Parliament annually.

Duchy of Cornwall

Income after tax from the Duchy of Cornwall funds the official duties of The Prince of Wales, Duchess of Cornwall, Duke and Duchess of Cambridge and Prince Henry of Wales, all of whom receive no income from the Privy Purse. Accounts for the Duchy of Cornwall are published and laid before Parliament annually.

The Royal Collection

The Royal Collection consists of works of art of all kinds and is held by The Queen as Sovereign in trust for Her successors and for the Nation. All costs of maintaining the Royal Collection are met by The Royal Collection Trust, a registered charity, from visitor admissions to the Occupied Palaces and related activities. The Royal Collection Trust receives no funding from the Government or the National Lottery. Around five million people saw items from the Royal Collection in royal palaces during 2012-13 and many more people saw items from the Royal Collection on loan to museums and galleries around the world. An annual report is published by The Royal Collection Trust, copies of which are available on-line at www.royalcollection.org.uk.

Further information is available on www.royal.gov.uk

MANAGING THE ROYAL HOUSEHOLD

Continuing improvement is an important part of the Royal Household's approach, and it operates in a businesslike and professional manner, with a strong emphasis on value for money and accountability in the use of public funds and resources.

HOUSEHOLD OBJECTIVES

The objectives of The Queen's Household are to:

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

SENIOR MANAGEMENT

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

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

- Lord Chamberlain - The Rt Hon. The Earl Peel

Heads of Departments:

- Private Secretary to The Queen - The Rt Hon. Sir Christopher Geidt
- Keeper of the Privy Purse - Sir Alan Reid
- Master of the Household - Air Marshal Sir David Walker
- Comptroller, Lord Chamberlain's Office - Lt Col. Sir Andrew Ford
- Director of the Royal Collection - Jonathan Marsden

Non-executive members:

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

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

REMUNERATION REPORT

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

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

The salaries of The Rt Hon. The Earl Peel, Lieutenant Colonel Sir Andrew Ford and Air Marshal Sir David Walker are set with reference to Senior Civil Service pay scales.

Air Marshal Sir David Walker has given notice of his retirement from the Royal Household on 31 December 2013.

All other 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.

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

	<i>Start Date</i>	<i>Salary</i>		<i>Pension Payments</i>	
		2012-13	2011-12	2012-13	2011-12
<i>Year to 31 March</i>		£'000	£'000	£'000	£'000
The Rt Hon. The Earl Peel	Oct 2006	84	82	13	12
The Rt Hon. Sir Christopher Geidt	Sept 2002	146	146	22	22
Sir Alan Reid	July 2002	180	180	32	34
Air Marshal Sir David Walker	Jan 2005	122	120	19	31
Lt Col. Sir Andrew Ford	Oct 2005	116	109	17	16

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. There are no additional benefits in kind.

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

The median remuneration of all employees (before deduction of abatements and other charges in respect of housing) is £25,580 (2011-12: £25,052) and the multiple of the remuneration of the highest paid Committee member to the median remuneration is 7.8 (2011-12: 7.8). The mean salary of all employees (salaries / FTE staff employed) for the year is £32,968 (2011-12: £32,564).

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

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

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

Sir Alan Reid
Keeper of the Privy Purse
7 June 2013

OPERATING APPROACH

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

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

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

Property Maintenance

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

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

The approach of the Property Section, subject to funding constraints, is based on pre-planned preventative maintenance and conserving (and wherever possible enhancing) the architectural and historical integrity of the buildings, while ensuring that the Palaces can continue to be used in the most effective and efficient way as living and working buildings.

The care of the buildings is based on:

- the detailed specialist knowledge, experience and observation of members of the Property Section;
- expert advice from a wide range of independent consultants with experience in conservation, backed up by regular consultation with English Heritage, and the use of contractors with appropriate experience;
- a programme of regular checks, tests and inspections;
- condition assessments recorded on a web based system developed by the Defence Infrastructure Organisation that assist in determining maintenance priorities and monitoring changes in the overall condition of the Occupied Royal Palaces;
- the operating requirements of the departments of the Royal Household, the other Royal Households and the other organisations which use the buildings; and
- new legislation and regulations as they affect, inter alia, construction, fire precautions and health and safety.

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

Travel

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

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

The programme of overseas tours is determined by the Foreign and Commonwealth Office, and approved by the Royal Visits Committee according to agreed priorities.

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

Housekeeping and Hospitality

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

EMPLOYMENT POLICIES

The Royal Household's employment policies and practices have been developed to support the Household's objectives and associated business plans, and to encourage a motivated, adaptable and skilled workforce. As evidence of this commitment to the alignment of its people practices to support achievement of its organisational goals, and to measure its performance against an external standard, the Royal Household sought and achieved Investors in People (IiP) accreditation in 2010.

The Household is committed to equality of opportunity. Diversity of both applicants and employees is promoted, with candidates sought from all sections of the community, responding to advertisements placed in national, regional and specialist media and a wide range of web sites. The majority of recruits to the Household now apply over the internet, submitting electronic applications, ensuring the widest possible trawl of candidates and that selection decisions are made on standardised information. The effectiveness of the Household's Equal Opportunities Policy is monitored.

The Household actively promotes employee health and well being with the aim of fostering a culture of motivation and engagement, encouraging the retention of key staff. Initiatives include the formation of a Wellbeing Committee with staff representatives, the promotion of a variety of Sports and Social Clubs and the implementation of flexible working, as well as various health and fitness initiatives. The average number of days of employee absence due to sickness in 2012-13 was 6 days (2011-12: 4.6 days).

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

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

LEARNING AND DEVELOPMENT

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

SUSTAINABILITY AND SOCIAL RESPONSIBILITY

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

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

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

SUPPLIER PAYMENT PERFORMANCE

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

Percentage paid within:

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

The Royal Household’s performance against these targets under the Sovereign Grant can be found on page 74.

FIRE HEALTH AND SAFETY

Fire Safety

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

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

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

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

Health and Safety

The Royal Household aspires to be a leader in health and safety practice and is fully committed to the health, safety and welfare of all its employees, visitors, residents and contractors. In order to achieve this, the Royal Household provides robust control of the health and safety risks arising from all work activities. This includes following best practice in all aspects of health and safety as well as legal compliance, to create a good working environment and reduce accidents and cases of work-related ill health.

Health and Safety within the Royal Household is coordinated by a central Health and Safety team which provides advice and support to staff and managers alike to help bring continual improvement to work activities and the workplace. Safety training is provided as appropriate to the work undertaken, with a general health and safety awareness course provided to all staff within the organisation. Proactive consultation is undertaken with employees and via regular Health and Safety Committee Meetings.

The Royal Household's Health and Safety Policy documentation is kept under regular review which ensures that high standards of health and safety management are maintained. The health and safety culture throughout the Royal Household is under continual review and supplemented by a number of safety initiatives. Communicating a positive approach to health and safety remains the current focus of attention.

INFORMATION SECURITY AND MANAGEMENT

Work on compliance with ISO 27001 and the Government's Information Assurance Maturity Model was completed this year. The focus has now moved to maintaining these Standards and embedding their logic as a natural part of the work of the Royal Household.

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

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

OPERATING AND FINANCIAL REVIEW

OVERVIEW OF THE YEAR

The year ending 31 March 2013 was exceptionally busy incorporating events for both the Diamond Jubilee and the Olympics.

PUBLIC ENGAGEMENTS

During the year to 31 March 2013, The Queen undertook 288 public engagements in the United Kingdom whilst The Duke of Edinburgh undertook 275 official engagements. Although The Queen did not undertake any overseas engagements in 2012-13, Her Majesty was supported by members of the Royal Family who undertook 30 overseas engagements. Highlights of Her Majesty's schedule included:

- In April, as part of Her Majesty's Diamond Jubilee UK Regional Tours, The Queen and The Duke of Edinburgh undertook a two-day visit to South Wales. The Queen and The Duke of Edinburgh attended a Service of Thanksgiving at Llandaff Cathedral, met the Welsh rugby team at Margam Country Park, met former steel workers in Ebbw Vale and opened a school in Aberfan, amongst other engagements.
- In May, The Queen, accompanied by The Duke of Edinburgh, travelled to the Palace of Westminster for the State Opening of Parliament.
- Also in May, The Queen and The Duke of Edinburgh gave a Luncheon for Sovereign Monarchs at Windsor Castle to commemorate Her Majesty's Diamond Jubilee.
- In June, The Queen attended several events as part of the Diamond Jubilee Central Weekend, including the Thames Diamond Jubilee Pageant, a BBC Concert at Buckingham Palace and a National Service of Thanksgiving at St. Paul's Cathedral.
- Also in June, The Queen and The Duke of Edinburgh visited Northern Ireland in celebration of Her Majesty's Diamond Jubilee, attending a service of Thanksgiving at St. Macartin's Cathedral and meeting families of the victims of the 1987 Enniskillen Bombing.
- In July, Her Majesty and His Royal Highness undertook a series of engagements in Scotland as part of 'Holyrood Week'. The Queen reopened the National Portrait Gallery of Scotland, held an investiture at the Palace of Holyroodhouse and, accompanied by The Duke of Edinburgh, held a Garden Party at the Palace and visited Glasgow, Clydebank, Inverclyde and Perth.
- Later on in July, The Queen and The Duke of Edinburgh gave a Reception at Buckingham Palace for Heads of State and Government attending the Opening Ceremony of the XXX Olympic Games. Her Majesty and His Royal Highness then attended the Opening Ceremony at the Olympic Park, Stratford.
- In October, the President of the Republic of Indonesia undertook a State Visit to the UK. The President was met by The Queen and The Duke of Edinburgh, who later gave a State Banquet in his honour.

- In November, The Queen, Patron, visited the Royal Commonwealth Society and met UK and Commonwealth jubilee Time Capsule participants and winners of the Commonwealth Essay Competition.
- In November, The Queen and The Duke of Edinburgh welcomed the Amir of the State of Kuwait to Windsor Castle as part of a State Visit.
- In December, The Queen attended a Cabinet Meeting at No.10 Downing Street and visited the Foreign and Commonwealth Office.
- In March 2013, The Queen and The Duke of Edinburgh, with The Duchess of Cambridge, visited Baker Street Underground Station to commemorate the One Hundred and Fiftieth Anniversary of London Underground.

STAFF

During the year, the average number of staff paid from the Sovereign Grant was 436 (2011-12: 431). The increase is due to additional staff appointed for the jubilee year and the filling of vacancies which arose in the previous year.

The total costs of Royal Household employees paid from the Sovereign Grant were £18.3 million (2011-12: £17.5 million). After taking into account additional resources required for the jubilee, staff restructuring costs and increased recharges to related parties, the net increase in payroll costs was 2.2% in absolute terms and a decrease of 0.5% in real terms.

PROPERTY MAINTENANCE

Expenditure on Property Maintenance increased by £0.2million in 2012-13, an increase of 2.7% in absolute terms and a decrease of 0.1% in real terms.

The completion of the Condition Assessment survey of the Occupied Royal Palaces Estate confirmed that 39% of the Estate was below target condition at 31 March 2012. The Royal Household aims to use a significant proportion of future increases in Sovereign Grant funding, supplemented by growth in income from property rental, event and facility management charges, to maintain the Annual Works Programme at a level which will contribute to reducing the backlog in essential maintenance. Changes in the condition of the Estate will be monitored through the condition assessment survey at regular intervals which will be tri-annually.

Major Projects in the Year

In 2012-13 a total of 113 projects over £3,500 in value were carried out across the estate. Six of these projects had a construction works spend in excess of £250,000 in the year and individually accounted for 50% of the total project spend across the whole estate.

Removal of Asbestos in the Basement Floor Ducts, West and South Wings of Buckingham Palace (£0.8 million works, £0.1 million fees to date)

The mechanical and electrical services at Buckingham Palace were largely installed in 1949 and are in need of replacement. The mains are distributed around the Palace from central plant rooms in ducts that run under the basement floor of three of the four wings. This project involves the West wing and comprises the clearance of asbestos contamination; the removal of redundant mains cabling and the replacement of duct covers which will provide easier access for the future replacement of cables serving main fuse boards.

External Repair to Dormitory Roof, Windsor Castle (£0.7 million works, £0.1 million fees to date)

The lead parapet gutters were in poor condition and many of the slates had lost their fixings, so this project renewed all of the roof coverings. At the same time, the means of escape from the bedrooms was rationalised by installing a water mist fire suppression system, so that the building can safely operate with a single staircase. The project was completed in May 2013.

Internal Refurbishment, Kensington Palace (£0.6 million works, £0.1 million fees to date)

Apartment 1A at Kensington Palace was constructed to the designs of Sir Christopher Wren, to form a grand route to the King's Staircase from the Porte Cochere that is now the entrance to Apartment 1. Refurbished in 1962-3 to create an apartment for Princess Margaret and Lord Snowdon, Apartment 1A will be the home of The Duke and Duchess of Cambridge. From 2002, the apartment was occupied by Historic Royal Palaces Trust, providing offices and storage in support of the public opening of the State Apartments. HRPT moved out of the apartment in October 2012, allowing refurbishment to commence. The project involves the complete replacement of heating, hot and cold water, and electrical services throughout the apartment. To enable this work to proceed safely, all of the floor voids were cleared of asbestos contamination. Completion of the whole project is expected in the autumn of 2013.

Renewal of Roof over Apartment 1A, Kensington Palace (£0.4 million works to date)

The roof over Apartment 1A comprises Westmoreland slate slopes to the South side and clay tiled pitches overlooking Clock Court, with a lead flat roof spanning between the two. The tiled slopes in particular were showing signs of age, with many broken or slipped, and the lead was also nearing the end of its life. Works therefore commenced in January 2013 to renew all of the coverings. The original intention was to renew the tiles and lead, and to re-fix the slates, but it was found that a large number of new slates had to be procured. Repairs were also needed to the roof structure where there was evidence of previous fire damage. The work is due for completion in July 2013.

External Repairs to the Victoria and Albert Mausoleum (£0.3 million works to date)

The Royal Mausoleum, which was completed in 1868, is constructed from granite and Portland stone. The interior is lined with red marble, inlaid in which is a wide variety of other marbles. There is also extensive wall painting generally on a religious theme. Water penetration, condensation and salt crystallisation have been a recurring problem over many years and the damage caused to the interior has often been considerable. As a result, restoration and investigative works have been required on numerous occasions since 1949. Despite these works, deterioration continued and the building was eventually placed on the “at risk” register by English Heritage. This phase of the project repaired minor defects in the copper roofs, repointed areas of stonework and installed temporary plastic rainwater downpipes, including an increased number to the top lantern roof. The aim of the project was to carry out sufficient work to allow the building to start to dry out. Numerous attempts have been made to resolve dampness in the Mausoleum since it was constructed (the earliest records being from the early 20th century), so conditions within the building will continue to be monitored over the next 2-3 years by a number of sensors to prove if this work is wholly successful.

General Maintenance

General maintenance costs comprise preventative/planned and reactive work. Preventative or planned maintenance includes small areas of redecoration and other repair work costing less than £3,500, regular inspections of lifts, boilers and other equipment and plant, work arising from in-house inspections, and routine tasks such as sweeping roofs and paths and clearing rubbish. Reactive maintenance includes minor repairs to blocked drains, sticking windows, leaking roofs, changing light bulbs, and so on. Expenditure on general maintenance in 2012-13 was £3.1 million (2011-12: £3.2 million).

TRAVEL

Almost 3,000 official engagements were undertaken across the United Kingdom and overseas by members of the Royal Family during the year to 31 March 2013. These involved a significant amount of travel that needed to be undertaken in a way which met efficiency, security and presentational requirements and minimised disruption to the public. A list of the 91 (2011-12: 72) journeys undertaken by members of the Royal Family and their staff during 2012-13 which had travel costs of £10,000 or more, met from the Sovereign Grant, is available on the monarchy website at www.royal.gov.uk. The largest tours during the year were undertaken by:

- The Duke and Duchess of Cambridge – Diamond jubilee visit to Singapore, Malaysia, Solomon Islands and Tuvalu (£369,000).
- The Prince of Wales and The Duchess of Cornwall – tour to Jordan, Qatar, Saudi Arabia and Oman (£300,000).

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

SUSTAINABILITY

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

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

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

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

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

Carbon Emissions

Tonnes CO²	2013	2012
Official Travel	2,459	3,499
Electricity	4,193	4,078
Gas	4,466	3,837
	<u>11,118</u>	<u>11,414</u>
Overall % change	-3%	-

Official Travel

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

Electricity

In 2012-13 approximately 8.0 million kWh (2011-12: 7.8 million kWh) were consumed on the Estate, an increase of 3%. The combined heat and power units (CHP) located at Buckingham Palace and Windsor Castle produced 2.6 million kWh of this consumption (2011-12: 2.9 million kWh).

Gas

In 2012-13 approximately 24.4 million kWh (2011-12: 21.0 million kWh) were consumed on the Estate, an increase of 14% due largely to the prolonged period of cold weather in the final quarter of 2012-13. The CHP units in both London and Windsor provide hot water during the summer allowing the main boilers to be switched off and thereby reducing gas consumption.

Water and Sewerage

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

Meters monitoring hot-water consumption at Buckingham Palace are linked to the Building Energy Management Control System to facilitate analysis and control. In 2012-13 approximately 0.1 million litres were used across the estate (2011-12: 0.2 million litres).

Waste

In 2012-13 approximately 5,169 tonnes (2011-12: 4,737 tonnes) of waste were generated across the Estate, an increase of 9%.

INCOME GENERATION

Income supplementing the Sovereign Grant amounted to £11.6 million (2011-12: £10.0 million) an increase of 16%. Property rental income increased by £0.3 million due to income from the Russian Olympic Committee for use of Perks Field, Kensington Palace and the Concourse D'Elegance event at Windsor Castle. Facilities management charges increased by £0.3 million due to Buckingham Palace being open to the public for 5 more days than in 2011-12 and an inflationary increase in the Windsor Castle facilities management charge. Recharges and other income increased by £0.8 million due to income from the BBC Jubilee concert and the impact of higher recharges of Information Technology expenditure to related parties.

Sir Alan Reid

Keeper of the Privy Purse

7 June 2013

FUTURE DEVELOPMENTS

STAFF

With effect from 1 April 2013, the Royal Household will assume responsibility for the cost of four Access Control Officers at St James's Palace and Kensington Palace, who are currently funded by the Home Office.

In order to make further progress in reducing the environmental impact of the Royal Household's activities it is planned to appoint an Environmental Manager in the coming year.

PERSONNEL

The strategy for 2013 includes a focus on continuous improvement with consideration of best practice, internal and external benchmarking, feedback gained through the Investors in People reassessment and a staff engagement survey. These will explore important aspects of employees' experiences of working for the Household and highlight areas where further improvement is possible.

The focus on utilising technology to streamline and improve Human Resources services will continue. A suite of e-learning programmes will be launched, and the annual performance review process will be made available through an automated self-service system. Further enhancements will also be made to the online recruitment system and the use of social media evaluated to ensure the continued attraction of a talented and diverse pool of applicants.

Leadership and management development remains a key element of the Personnel plan. A specific objective for 2013 will be the ongoing development of the in-house accredited chartered management and leadership programmes. To support skills and career development, the provision of one-to-one and team coaching will also be enhanced.

PROPERTY MAINTENANCE

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

Replacement of Services at Buckingham Palace

Work has continued in 2012-13 to remove asbestos from the ducts under the floor of the basement, completion of which will be achieved in the summer of 2013. Thereafter, it is planned to continue replacing the mains electrical cables from the switch room and installing new mains panels in the basement. There will also be further investigation into the possibility of an alternative source of supply to improve resilience in terms of business continuity.

Internal Refurbishment, Kensington Palace

The refurbishment of Apartment 1A at Kensington Palace will be completed in the autumn of 2013. The final phase of office refurbishments will also be completed, enabling the offices of The Duke and Duchess of Cambridge to relocate to the palace.

External Fabric Repairs

The long-term programme of external fabric repairs at Buckingham Palace and Windsor is extensive and is therefore dependent on the available funding. It is however intended to manage a limited programme of repairs in 2013-14, including the renewal of roofing in the Upper Ward Windsor Castle and slate and lead roofing in the Royal Mews at Buckingham Palace.

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

Renewal of Water Mains, Windsor

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

OFFICIAL TRAVEL

Following the re-location of The Queen's Helicopter Flight (TQHF) from Blackbushe Airport to RAF Odiham, plans are being developed for the establishment of permanent hangarage facilities. Due to be completed by March 2014, these facilities will provide a secure maintenance and operating base for The Queen's Helicopter Flight.

SUSTAINABILITY

An agreement has been signed by the Household with Romney Hydropower Company Limited to purchase electricity generated by a hydro electric scheme at Romney Lock for use at Windsor Castle with the excess electricity generated being sold to the National Grid. The supply of electricity commenced in April 2013.

INCOME GENERATION

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

Income generated from the use of Perks Field, Kensington Palace amounted to £0.4 million in 2012-13 (2011-12: £0.3 million) and it is anticipated that income will continue to be generated from the commercial letting of Perks Field, Kensington Palace, for up to 60 days in 2013-14.

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.

Governance framework

Lord Chamberlain's Committee

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

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

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

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

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

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

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

- Sovereign Grant Planning Board – The Sovereign Grant Planning Board met twice during 2012-13 to undertake a cross department review of the Budget and Three Year Plan (2013-16) priorities.
- Security Risk Management Board – The Royal Household Security Risk Management Board met twice during 2012-13 to consider reports from the Information, Personnel and Physical Security Working Groups.
- Aviation Safety Review Board – The Royal Household Aviation Safety Review Board met twice in 2012-13 to consider risks assessed by the Aviation Safety Management Committee and equipment safety enhancements and more recently the risks associated with the use of chartered helicopters.

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

Audit Committee

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

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

The Audit Committee annually reviews its terms of reference and undertakes a formal evaluation of its own performance every three years.

Matters dealt with by the Committee include:

- reviewing and challenging the actions and judgement of management in relation to the annual accounts;
- ensuring procedures are in place for detecting fraud and whistleblowing;
- review of reports from internal and external auditors, and management;
- review of the Governance Statement;
- agreement of internal and external audit plans;
- monitoring management’s responsiveness to internal audit findings and recommendations; and
- reviewing the Royal Household’s risk register and department plans.

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

Lord Chamberlain’s Committee	Meetings attended	Audit Committee	Meetings attended
The Rt Hon. The Earl Peel (Chair)	8/8	Sir David Tweedie (Chair)	3/3
The Rt Hon. Sir Christopher Geidt	8/8	Mr John Coombe	3/3
Sir Alan Reid	8/8	Ms Leslie Ferrar	2/3
Air Marshal Sir David Walker	8/8		
Lt Col. Sir Andrew Ford	8/8		
Mr Jonathan Marsden	8/8		
Brigadier Archie Miller-Bakewell	7/8		
Mr William Nye	8/8		

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

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

The Purpose of the System of Governance

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

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

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

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

Monitoring the effectiveness of Governance

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

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

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

Governance Activities during the year

Diamond Jubilee and London Olympics

The extensive programme of visits throughout the UK and the Commonwealth to celebrate the Diamond Jubilee together with a wide range of events celebrating both the Jubilee and supporting the London Olympics were successfully delivered through comprehensive planning involving all departments in the Royal Household, a clear assessment of risks and close liaison with a variety of external organisations and Government departments both within the UK and overseas.

Preparation also included desk top planning exercises of the Royal Household's business continuity arrangements and an assessment of the Household's capability to work remotely during the period of the Olympics.

Transition to the Sovereign Grant

This year was the first year of the new funding arrangements for the Royal Household under the Sovereign Grant Act 2011. The consolidation of the three separate funding sources (Civil List – HM Treasury, Property Services and Communications Grant-in-aid – Department for Culture Media and Sport and Royal Travel – Department for Transport) into a single grant presented a number of challenges to maintaining good governance. A key risk for the Lord Chamberlain's Committee was ensuring the continued provision of clear and timely management information to facilitate the monitoring of financial performance. The construction of the new chart of accounts for the Sovereign Grant was largely completed and tested in the previous financial year. Although the Lord Chamberlain's Committee received the new consolidated management information reports from May 2012 the content has continued to develop over the remainder of the year.

The Sovereign Grant for 2012-13 amounted to £31.0 million compared with expenditure of £32.4 million in 2011-12. Despite the additional commitments in 2012-13 associated with the Diamond jubilee celebrations and the hosting of the London Olympics which included travel throughout the UK and the Commonwealth, Garden Parties at Buckingham Palace, the Palace of Holyroodhouse, Sandringham and Balmoral, and receptions at Buckingham Palace and Windsor Castle, expenditure in 2012-13 amounted to £33.3 million, a 0.2% decrease in real terms on the previous year.

Royal travel by Helicopter

The Queen's helicopter is a key resource in the delivery of the annual programme of visits by Members of the Royal Family throughout the UK. Due to continuing concerns as to the adequacy of maintenance arrangements and following an evaluation of appropriately qualified engineering facilities, a decision was taken to re-locate the Royal Household's helicopter operation from Blackbushe to RAF Odiham in March 2013. The establishment of appropriate hangarage and engineering facilities in order to maintain the highest safety standards is a key project for 2013-14.

In conjunction with the re-location of The Queen's helicopter consideration has been given to the use of charter helicopters in light of the accident at Vauxhall in January 2013 together with other reported safety incidents. The Royal Household's Aviation Safety Review Board has examined the risks associated with the use of charter helicopters and has recommended measures to mitigate risk which will be developed further in 2013-14.

IT Systems

The Royal Household's Information Systems Management (ISM) section supports 1,754 IT users, including 1,027 users who are funded outside of the Sovereign Grant. One of most far reaching projects to be undertaken by the ISM section in recent years is the upgrade of the Royal Household's IT systems to Windows 7 and Microsoft Office 2010. In addition to the number of people affected by the project, the project plan identified the need for upgrades to other core systems including Finance, BACS payments, Food Management and Remote Access. The Finance and BACS payments systems have been upgraded in 2012-13 in anticipation of the Windows 7 and Microsoft Office 2010 upgrade being implemented throughout 2013-14. A Project Board has been established to monitor the implementation with a view to minimising the operational disruption and managing costs.

Property Maintenance

In the Royal Public Finances Annual Report 2011-12 it was reported that annual funding for property maintenance on the Occupied Royal Palaces had reduced by 69% in real terms since 1999-2000 which inevitably has led to the deferral of essential maintenance.

The anticipated increase in the Sovereign Grant in 2013-14 from £31 million to £36.1 million provides the opportunity for a large proportion of the increase in the Sovereign Grant to be allocated to property maintenance and hence address the accumulated backlog in maintenance.

In support of the planned increase in activity in maintaining the Palaces work has been underway on improving the condition assessment records so as to identify maintenance priorities more clearly and to develop the project records systems to ensure that projects are well documented and managed as efficiently as possible.

Victoria and Albert Mausoleum

The real terms reduction in funding for the maintenance of the Occupied Royal Palaces in recent years has meant that the restoration of The Royal Mausoleum has not been a priority for the Royal Household despite the building being on the English Heritage "at risk" register.

Although it is uncertain whether there will be sufficient funding to complete the restoration of the Mausoleum in the foreseeable future certain minor works were undertaken during the year to facilitate the drying out of the building. Conditions within the building will now be monitored over the next 2-3 years in order to assess whether a larger project of restoration might be considered and the building eventually removed from the English Heritage 'Buildings at Risk' Register.

Summary

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

Sir Alan Reid

Keeper of the Privy Purse

7 June 2013

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 the Treasury in accordance with the Framework Agreement between the Royal Household and HM Treasury; and
- the Sovereign Grant is applied only for the purposes set out in the Framework Agreement between the Royal Household and the 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 the Treasury.

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

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

- the Royal Household maintains the books and records which are proper and necessary to enable it to discharge its responsibility, as set out in the Framework Agreement, for income and expenditure;
- the Sovereign Grant is used economically, efficiently and effectively to secure good value for money, in accordance with propriety and regularity;
- staff paid from the Sovereign Grant take financial considerations fully into account at all stages in framing, reaching and executing decisions in so far as the Sovereign Grant is concerned; and
- proper, effective and timely follow-up action is taken to all internal and external audit reports.

The Keeper of the Privy Purse is also responsible for safeguarding the assets acquired from Sovereign Grant funds and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

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

Sir Alan Reid

Keeper of the Privy Purse

7 une 2013

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

I certify that I have audited the financial statements of the Royal Household in respect of the Sovereign Grant for the year ended 31 March 2013 under the Sovereign Grant Act 2011. The financial statements comprise the Statements of: Income and Expenditure, Comprehensive Income and Expenditure, Financial Position, Cash Flows, Changes in Reserves; the Sovereign Grant Reserve; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Keeper of the Privy Purse and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Royal Household's affairs in respect of the Sovereign Grant as at 31 March 2013 and of the total net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Sovereign Grant Act 2011 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

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

11 June 2013

STATEMENT OF INCOME AND EXPENDITURE

<i>Year to 31 March</i>		2013	2012
	Note	£m	£m
Funding receivable¹:			
Grants		31.0	29.1
Amounts repayable to the Department for Transport		–	(0.1)
Draw-down from Sovereign Grant Reserve ²		2.3	5.4
		33.3	34.4
Income			
Property rental income	2	3.0	2.7
Facilities management charges	2	3.7	3.5
Recharges for functions and other income	2	4.9	3.8
		11.6	10.0
Payroll costs	2,4	(18.3)	(17.5)
Other staff costs	2	(1.2)	(1.0)
Other expenditure			
Property maintenance	2	(9.1)	(8.9)
Travel	2	(4.5)	(5.0)
Utilities	2	(3.1)	(2.2)
Housekeeping and hospitality	2	(1.9)	(1.8)
Other	2,3	(6.8)	(6.0)
Total net expenditure		(33.3)	(32.4)
Excess of funding over net expenditure		–	2.0

The accounting policies are summarised on pages 43 to 49. The Statement of Income and Expenditure presented under Section 2 of the Sovereign Grant Act 2011 should be read in conjunction with the Statement of Comprehensive Income and Expenditure, the Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Reserves on pages 38 to 41. The notes on pages 43 to 73 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 75), 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.

² The Sovereign Grant Reserve replaces the Royal Household Investment Committee Reserve. Further details can be found on page 42.

STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

<i>Year to 31 March</i>	2013	2012
	£m	£m
Excess of funding over net expenditure		2.0
Actuarial gain / (loss) for the year (Group Pension Scheme)	0.3	(1.6)
Total recognised gains relating to the year	0.3	0.4
	=====	=====

STATEMENT OF FINANCIAL POSITION

<i>As at 31 March</i>		2013	2012	2011
	Note	£m	£m	£m
Non-current assets				
Property, plant and equipment	8	11.8	12.7	13.0
Intangible assets	7	0.2	0.3	0.3
Total non-current assets		12.0	13.0	13.3
Current assets				
Inventories	9	0.5	0.5	0.5
Trade and other receivables	10	6.2	6.2	4.4
Cash and cash equivalents	11	3.7	5.0	10.5
Total current assets		10.4	11.7	15.4
Total assets		22.4	24.7	28.7
Current liabilities				
Trade and other payables	12	(5.7)	(5.1)	(5.1)
Non-current liabilities				
Pension scheme liability	5	(2.5)	(3.4)	(2.4)
Total liabilities		(8.2)	(8.5)	(7.5)
Net assets		14.2	16.2	21.2
Reserves				
Non-current assets reserve		12.0	13.0	13.3
Inventory reserve		0.5	0.5	0.5
Other net current assets reserve		3.2	2.8	1.2
Sovereign Grant reserve ¹		1.0	3.3	8.6
Pension scheme reserve		(2.5)	(3.4)	(2.4)
Total reserves		14.2	16.2	21.2

Sir Alan Reid

Keeper of the Privy Purse

7 June 2013

¹ The Sovereign Grant Reserve replaces the Royal Household Investment Committee Reserve. Further details can be found on page 42.

STATEMENT OF CASH FLOWS

<i>Year to 31 March</i>	2013	2013	2012	2012
	£m	£m	£m	£m
Reconciliation of total net expenditure to funding				
Total net expenditure		(33.3)		(32.4)
Depreciation	1.4		1.6	
Net excess of contributions over pension service costs	(0.6)		(0.6)	
Increase in receivables			(1.8)	
Increase in payables	0.6		–	
		<u>1.4</u>		<u>(0.8)</u>
Net cash outflow from operating activities		(31.9)		(33.2)
Cash flows from investing activities				
Capital expenditure	(0.4)		(1.3)	
Net cash outflow from investing activities		<u>(0.4)</u>		<u>(1.3)</u>
Net cash outflow before funding		(32.3)		(34.5)
Cash flows from financing activities				
Grant funding received	31.0		29.0	
Net cash inflow from financing activities		<u>31.0</u>		<u>29.0</u>
Net decrease in cash and cash equivalents		<u>(1.3)</u>		<u>(5.5)</u>
Reconciliation of cash and cash equivalents		2013		2012
		£m		£m
As at 1 April		5.0		10.5
Net decrease		(1.3)		(5.5)
As at 31 March		<u>3.7</u>		<u>5.0</u>

STATEMENT OF CHANGES IN RESERVES

	Non-current assets reserve	Inventory reserve	Other net current assets reserve	Sovereign Grant Reserve	Pension scheme deficit	Total reserves
	£m	£m	£m	£m	£m	£m
As at 1 April 2011	13.3	0.5	1.2	8.6	(2.4)	21.2
Actuarial loss on Group Pension Scheme	–	–	–	–	(1.6)	(1.6)
Drawdown from reserve	–	–	–	(5.4)	–	(5.4)
Net funding for fixed assets and working capital	(0.3)	–	1.6	0.1	0.6	2.0
As at 31 March 2012	13.0	0.5	2.8	3.3	(3.4)	16.2

	Non-current assets reserve	Inventory reserve	Other net current assets reserve	Sovereign Grant Reserve	Pension scheme deficit	Total reserves
	£m	£m	£m	£m	£m	£m
As at 1 April 2012	13.0	0.5	2.8	3.3	(3.4)	16.2
Actuarial gain on Group Pension Scheme	–	–	–	–	0.3	0.3
Drawdown from reserve	–	–	–	(2.3)	–	(2.3)
Net funding for fixed assets and working capital	(1.0)	–	0.4	–	0.6	–
As at 31 March 2013	12.0	0.5	3.2	1.0	(2.5)	14.2

SOVEREIGN GRANT RESERVE

Sovereign Grant Reserve	2013	2012
(Royal Household Investment Committee Reserve until 31 March 2012)	£m	£m
Balance brought forward	3.3	8.6
Interest receivable	–	0.1
Drawdown	(2.3)	(5.4)
Balance carried forward	1.0	3.3

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

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

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

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

The Sovereign Grant Reserve is held by the Exchequer in accordance with the Framework Agreement with HM Treasury relating to the Sovereign Grant, a copy of which is available on the monarchy website at www.royal.gov.uk.

Sir Alan Reid

Keeper of the Privy Purse

7 June 2013

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 75 to 77) and have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The accounts have been prepared on an accruals basis.

First time adoption of International Financial Reporting Standards

The financial statements have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances for the purpose of giving a true and fair view of the Sovereign Grant has been selected. The particular policies adopted by the Sovereign Grant are described below. They have been applied consistently in dealing with items that are considered material to the accounts. Since this is the first year in which the Sovereign Grant has prepared Financial Statements under IFRS, the comparatives have been restated from accounting principles generally accepted in the UK (UK GAAP) to comply with IFRS.

The principal impacts of adopting the Government Financial Reporting Manual (FReM) which applies IFRS as adapted or interpreted for the public sector and the directions made by HM Treasury are set out in note 18. These accounting policies have been adopted consistently in all material respects throughout the year.

b) Income

The Sovereign Grant – This is recognised on a receivable basis. The Sovereign Grant Act 2011 states that if the Grant proves greater than required in a given year, the surplus will be paid into a capped reserve fund, the Sovereign Grant Reserve, managed by the Royal Trustees, which may be drawn down in future years as required. In accordance with the Accounts Direction issued by HM Treasury (See Appendix 3 Page 75), funding received in respect of the Sovereign Grant (and any draw down from the Sovereign Grant Reserve) is not required to be taken to Reserves but may be recognised in the Income and Expenditure account in the year in which it is receivable.

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

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

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

c) Leases

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

Keeper of the Privy Purse as lessee

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

Keeper of the Privy Purse as lessor

Operating lease rentals are charged to the Statement of Income and Expenditure on a straight-line basis over the period of the lease. Properties which are all held by right of the Crown are not capitalised within these accounts in accordance with the Accounts Direction issued by HM Treasury (See Appendix 3 Page 75).

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 completed and brought into service.

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

Heritage Assets

- Land and Buildings

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

- Expenditure on Major Restoration

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

Further information is given in Note 6 to the accounts.

Other Assets

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

This treatment of non-current assets is in accordance with the Accounts Direction issued by HM Treasury (See Appendix 3 Page 75).

Depreciation

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

Property Improvements and Infrastructure

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

Furnishings and Equipment

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

Plant and Machinery

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

f) Impairment of non-current assets

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

g) Inventories

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

h) Financial Instruments

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

(a) Trade and other receivables

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

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

(b) Cash and cash equivalents

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

(c) Trade and other payables

Trade and other payables are recognised at the invoiced amount.

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

i) Pensions

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

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

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

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

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

j) Other employee benefits

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

k) Reserves

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

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

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

l) Significant judgements, key assumptions and estimates

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

Property project accruals

The accruals for work completed on projects in the property annual works programme but not yet billed are calculated on the basis of an estimate of the percentage of the project that has been completed. This percentage is provided by the Director of Property Services in consultation with the property management team. Annual works programme project accruals as at 31 March 2013 were £0.6 million (2011-12: £0.3 million).

Post-retirement benefits

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

Holiday pay Accrual

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

2. SEGMENTAL ANALYSIS

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

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

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

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

Other expenditure includes depreciation of £1.2 million under PPTO (2011-12: £1.5 million under PPTO).

Facilities Management Charges amounting to £3.7 million (2011-12: £3.5 million) from The Royal Collection Trust amount to more than 8% of the Sovereign Grant annual revenue and are shown under PPTO.

All material revenues are derived from the United Kingdom.

<i>Year to 31 March</i>	PSO	PPTO	MOH	LCO	Total 2012
	£m	£m	£m	£m	£m
Income					
Property rental income	–	2.7	–	–	2.7
Facilities management charges	–	3.5	–	–	3.5
Recharges and other income	0.3	1.6	1.7	0.2	3.8
	<u>0.3</u>	<u>7.8</u>	<u>1.7</u>	<u>0.2</u>	<u>10.0</u>
Payroll costs	(3.3)	(5.4)	(5.9)	(2.9)	(17.5)
Other staff costs	–	(0.5)	(0.2)	(0.3)	(1.0)
Other expenditure					
Property maintenance	–	(8.8)	(0.1)	–	(8.9)
Travel	–	(0.1)	–	(4.9)	(5.0)
Utilities	–	(2.2)	–	–	(2.2)
Housekeeping and hospitality	–	(0.1)	(1.7)	–	(1.8)
Other	(0.4)	(4.1)	(0.7)	(0.8)	(6.0)
Total net expenditure	<u>(3.4)</u>	<u>(13.4)</u>	<u>(6.9)</u>	<u>(8.7)</u>	<u>(32.4)</u>

3. OTHER EXPENDITURE

	2013	2012
	£m	£m
Amortisation of software (note 7)	0.1	0.1
Depreciation of property, plant and equipment (note 8)	1.3	1.5
Other costs	5.4	4.4
	<u>6.8</u>	<u>6.0</u>

Auditors remuneration of £47,000 was charged for the year by the National Audit Office (2012: KPMG £74,000). There were no non-audit fees paid to the auditors (2011-12: nil).

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

4. STAFF NUMBERS AND COSTS

Staff Numbers

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

	2013	2012
Lord Chamberlain	1	1
Private Secretary's Office	62	59
Privy Purse and Treasurer's Office	124	125
Master of the Household's Department	184	179
Lord Chamberlain's Office	65	67
	<u>436</u>	<u>431</u>

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

The total number of FTE staff employed by the Royal Household before recharges and secondments to related parties amounted to 500 (2011-12: 506).

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

	2013	2012
	£m	£m
Salaries	14.4	14.0
Temporary staff	0.2	0.2
National insurance	1.3	1.2
Pension contributions	2.4	2.1
	<u>18.3</u>	<u>17.5</u>

The total cost of FTE staff employed by the Royal Household before recharges and secondments to related parties amounted to £18.5 million (2011-12: £18.1 million).

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

Other Staff Costs

Other Staff Costs £1.2 million (2011-12: £1.0 million) include agency staff who are engaged in the performance of duties for the Sovereign Grant at a cost of £0.5 million (2011-12: £0.4 million).

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

5. PENSION ARRANGEMENTS

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

- (a) a scheme managed by the Government by-analogy to the Civil Service pension scheme (the Royal Household Pension Scheme); or
- (b) a scheme managed by trustees on behalf of the Royal Household (the Royal Households Group Pension Scheme).

Both pension schemes provide similar pension benefits based on final pay and are non-contributory for employees (except in respect of widows'/widowers' benefits for the Government managed scheme). Full-time permanent employees joining post 1 April 2002 are entitled to be members of the Royal Household Defined Contribution (Stakeholder) Pension Scheme. Information about the schemes is set out below.

Royal Household Pension Scheme

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

The scheme actuary (Government Actuary's Department) valued the scheme as at 31 March 2009 and updates that valuation for IAS19 annually. The total liabilities of the scheme of £90.7 million (2011-12: £91.7 million) are included in the resource accounts of the Consolidated Fund Account. The Sovereign Grant funds the employment costs of 104 of the 122 active members of the scheme as at 31 March 2013. 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 2012-13, employers' contributions of £0.1 million were payable to the scheme (2011-12: £0.1 million). For 2013-14, employers' contributions are expected to be £0.1 million.

Royal Households Group Pension Scheme

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

The contribution rate for the scheme is based on triennial valuations undertaken by a qualified independent actuary using the projected unit method. As the scheme is closed to new entrants, under the projected unit method the current service cost will increase as the members approach retirement. The most recent completed valuation was as at 31 December 2011. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It was assumed that the real investment return would be 0.5% per annum post-retirement and 2% per annum pre-retirement, that real salary increases would average 4.1% per annum and that pensions would increase at the rates specified in the scheme rules.

The most recent actuarial valuation showed that the total market value of the assets of the scheme was £49.0 million and that this value of the assets was sufficient to cover 72% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Following this valuation, the employer's contribution rate is 29.9% from 1 April 2013, plus a lump sum payment of £212,000 each year for twelve years from 1 April 2013 increasing annually at 2.8% per annum.

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

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

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

The valuation used for this disclosure has been based on the most recent actuarial review of the Royal Households Group Pension Scheme as at 31 December 2011 updated by an independent qualified actuary, Aon Hewitt Associates to take account of the requirements of IAS 19: Accounting for pension costs in order to assess the liabilities in respect of the Sovereign Grant sections of the scheme at 31 March 2013.

Scheme assets are stated at their market values at 31 March 2013.

Actuarial assumptions adopted as at 31 March (% pa)	2013	2012
Discount rate	4.6	4.8
Expected rate of return on assets	6.1	6.1
Rate of general long-term increase in salaries	3.9	3.8
Rate of price inflation (RPI)	3.4	3.3
Rate of price inflation (CPI)	2.4	2.3
Rate of increase to pensions in payment (pre-1993 service)	3.2	5.0
Rate of increase to pensions in payment (post-1993 service)	5.0	3.2

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

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires in 2033 at age 65 will live on average for a further 24.3 years after retirement if they are male and for a further 26.7 years after retirement if they are female.

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

The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme at 31 March 2012.

Fair value by asset class

As at 31 March	2013	2012
	£m	£m
Equities	10.8	8.3
Government bonds	6.4	5.6
Property	1.6	1.4
Cash/net current assets	0.2	0.4
	<u>19.0</u>	<u>15.7</u>

Reconciliation of funded status to the balance sheet

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

There is a net pension liability of £2.5 million as at 31 March 2013. The amount of this net pension liability has a consequential effect on reserves.

Analysis of amounts charged against income and expenditure

Year to 31 March	2013	2012
	£m	£m
Current service cost	0.7	0.6
Past service cost		(0.2)
Interest cost	0.9	0.9
Expected return on assets	(0.9)	(0.9)
Amounts charged against expenditure	<u>0.7</u>	<u>0.4</u>

Changes to the present value of the defined benefit obligation

As at 31 March	2013	2012
	£m	£m
Defined benefit obligations as at 1 April	19.1	16.4
Movement in year:		
Current service cost	0.7	0.6
Past service cost		(0.2)
Interest cost	0.9	0.9
Actuarial losses on scheme liabilities	1.1	1.8
Net benefits paid out	(0.3)	(0.4)
Defined benefit obligations as at 31 March	<u>21.5</u>	<u>19.1</u>

Changes to the fair value of scheme assets

As at 31 March	2013	2012
	£m	£m
Fair value of scheme assets as at 1 April	15.7	14.0
Movement in year:		
Expected return on scheme assets	0.9	0.9
Contributions by employer	1.3	1.0
Actuarial gains on scheme assets	1.4	0.2
Net benefits paid out	(0.3)	(0.4)
Fair value of scheme assets as at 31 March	<u>19.0</u>	<u>15.7</u>

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

As at 31 March	2013	2012
	£m	£m
Deficit as at 1 April	(3.4)	(2.4)
Movement in year:		
Current service cost	(0.7)	(0.6)
Interest cost	(0.9)	(0.9)
Past service cost		0.2
Contributions by employer	1.3	1.0
Expected return on assets	0.9	0.9
Actuarial gains/(losses)	0.3	(1.6)
Deficit as at 31 March	<u>(2.5)</u>	<u>(3.4)</u>

Actual return on scheme assets

Year to 31 March	2013	2012
	£m	£m
Expected return on scheme assets	0.9	0.9
Actuarial gains on scheme assets	1.4	0.2
Actual return on scheme assets	<u>2.3</u>	<u>1.1</u>

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

Year to 31 March	2013	2012
	£m	£m
Total actuarial gains / (losses)	0.3	(1.6)
Change in assets not recoverable in the future		–
Total gains /(losses) recognised in the Statement of Comprehensive Income and Expenditure	<u>0.3</u>	<u>(1.6)</u>
Cumulative amount of losses recognised in Statement of Comprehensive Income and Expenditure	(1.3)	(1.6)

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

	2013	2012
	£m	£m
Fair value of scheme assets	19.0	15.7
Defined benefit obligations	(21.5)	(19.1)
Deficit in scheme	<u>(2.5)</u>	<u>(3.4)</u>

History of experience gains and losses

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

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	2014
	£m
Current service cost	0.7
Administration Expenses	0.1
Interest cost	0.1
Total estimated pension expense	<u>0.9</u>

Royal Household Defined Contribution (Stakeholder) Pension Scheme

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

6. HERITAGE ASSETS NOT RECOGNISED IN THE BALANCE SHEET

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

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

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

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

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

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

7. INTANGIBLE ASSETS

	Software £m
Cost	
At 1 April 2012	0.7
Additions	—
At 31 March 2013	<u>0.7</u>
Amortisation	
At 1 April 2012	0.4
Charge for the year	0.1
At 31 March 2013	<u>0.5</u>
Net book value	
At 31 March 2013	<u>0.2</u>
At 1 April 2012	<u>0.3</u>
	Software £m
Cost	
At 1 April 2011	0.6
Additions	0.1
At 31 March 2012	<u>0.7</u>
Amortisation	
At 1 April 2011	0.3
Charge for the year	0.1
At 31 March 2012	<u>0.4</u>
Net book value	
At 31 March 2012	<u>0.3</u>
At 1 April 2011	<u>0.3</u>

8. PROPERTY, PLANT AND EQUIPMENT

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

“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 2011	17.6	2.8	5.2	–	25.6
Additions	0.1	0.1	0.5	0.5	1.2
Disposals	(1.6)	(0.5)	(1.1)	–	(3.2)
At 31 March 2012	16.1	2.4	4.6	0.5	23.6
Depreciation					
At 1 April 2011	7.8	1.5	3.3	–	12.6
Charge for the year	0.6	0.3	0.6	–	1.5
Disposals	(1.6)	(0.5)	(1.1)	–	(3.2)
At 31 March 2012	6.8	1.3	2.8		10.9
Net book value					
At 31 March 2012	9.3	1.1	1.8	0.5	12.7
At 1 April 2011	9.8	1.3	1.9	–	13.0

9. INVENTORIES

<i>Year to 31 March</i>	2013	2012
	£m	£m
Wine and spirits	0.4	0.5
Other	0.1	–
	0.5	0.5

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

10. TRADE AND OTHER RECEIVABLES

<i>Year to 31 March</i>	2013	2012
	£m	£m
Recharges	1.3	1.0
Other receivables	0.2	0.3
Prepayments and accrued income	4.7	4.9
	6.2	6.2

Prepayments and accrued income includes £3.7 million (2011-12: £3.5 million) in respect of facilities management charges payable by The Royal Collection Trust.

No provision for bad or doubtful debts was considered necessary as at 31 March 2013 (2011-12: nil).

11. CASH AND CASH EQUIVALENTS

<i>Year to 31 March</i>	2013	2012
	£m	£m
Government Banking Service	3.3	3.3
Commercial banks and cash in hand	0.4	1.7
	3.7	5.0

12. TRADE AND OTHER PAYABLES

<i>Year to 31 March</i>	2013	2012
	£m	£m
Trade payables	1.5	1.4
Rent deposits	0.1	0.1
Taxes and social security	1.3	1.3
Other payables	0.7	0.8
Accruals and deferred income	2.1	1.5
	5.7	5.1

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

13. LEASING

Operating leases with tenants

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

	2013	2012
	£m	£m
Expiring in less than one year	0.6	1.0
Between two and five years	0.2	0.4
	0.8	1.4

Obligations under operating leases

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

	2013	2012
	£m	£m
Expiring in less than one year	0.3	0.1
Between two and five years	0.2	0.6
Expiring in more than 5 years	3.1	3.1
	<u>3.6</u>	<u>3.8</u>

14. OTHER COMMITMENTS

The Royal Household had committed to the following expenditure:

	2013	2012
	£m	£m
As at 31 March		
Expiring in less than one year	10.3	4.8
Between two and five years		–
Expiring in more than 5 years	2.5	2.8
	<u>12.8</u>	<u>7.2</u>

This expenditure comprises:

	2013	2012
	£m	£m
As at 31 March		
Property Maintenance		
• Contracted	4.3	2.0
• Authorised	5.6	2.0
Royal Train – service contract	0.2	0.2
Helicopter – maintenance contracts	2.7	3.0
	<u>12.8</u>	<u>7.2</u>

Included within contracted commitments are the following capital commitments:

	2013	2012
	£m	£m
Property Improvements and Infrastructure		0.2
Plant and Machinery		0.1
	<u> </u>	<u> </u>
		0.3
	<u> </u>	<u> </u>

15. CONTINGENT LIABILITIES

There were no contingent liabilities at the year end (2011-12: nil).

16. RELATED PARTY TRANSACTIONS

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

	2013	2012	2013	2012
	£m	£m	£m	£m
	Balance due from:		Recoveries from:	
The Royal Collection Trust	5.4	4.7	8.4	6.2
Privy Purse	0.1	0.1	0.6	0.8
Other Royal Households	0.2	0.2	1.1	0.8
	Balance due to:		Charged by:	
Privy Purse		–	0.2	0.1

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

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

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

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

The Sovereign Grant Accounts are consolidated within the Financial Statements of HM Treasury a copy of which can be found on www.hm-treasury.gov.uk.

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

	2013	2012	2013	2012
	£m	£m	£m	£m
	Balance due / (to)		Recoveries from /	
	from:		(charges to):	
Foreign and Commonwealth Office	0.3	0.1	0.4	0.4
Home Office	0.2	–	0.2	0.1
Metropolitan Police		–	0.1	0.1
Cabinet Office	(0.1)	(0.1)		0.1

17. ISSUE OF ACCOUNTS

On 7 June 2013 the financial statements were approved by the Audit Committee on behalf of the Lord Chamberlain's Committee prior to certification by the Comptroller and Auditor General on 11 June 2013. On this date the financial statements are deemed to be authorised for issue.

18. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year the Royal Household has adopted International Financial Reporting Standards for the first time as modified by the requirements of the directions of HM Treasury.

The last financial statements presented under UK GAAP as modified by the directions of HM Treasury were for the year ended 31 December 2011 for The Civil List and for the year ended 31 March 2012 for the three individual entities, The Grant-in-aid for the Maintenance of the Occupied Royal Palaces, The Grant-in-aid for Communications and Information and The Grant-in-aid for Royal Travel by Air and Rail, prior to their amalgamation into the Sovereign Grant with effect from 1 April 2012.

As International Financial Reporting Standards comparatives must be prepared for the year ended 31 March 2012, the date of the transition to International Financial Reporting Standards was 1 April 2011.

Amalgamated balance sheets have been prepared, incorporating the assets and liabilities of all entities, at both 1 April 2011 and 31 March 2012 as well as a comparative Statement of Income and Expenditure and Cashflow for the Sovereign Grant for the year ended 31 March 2012.

Reconciliations of the balance sheets at 31 March 2012 as detailed above are set out on pages 69 to 70.

The transition to International Financial Reporting Standards has had no impact on the Statement of Income and Expenditure or Cashflow of the Sovereign Grant.

Reconciliation of Reserves at 1 April 2011 from UK GAAP as modified to IFRS

<i>As at 31 March</i>	Ref	As reported under UK GAAP £m	Effect of Transition to IFRS £m	Reported under IFRS £m
Non-current assets				
Property, plant and equipment	(a)	13.3	(0.3)	13.0
Intangible assets		–	0.3	0.3
		13.3	–	13.3
Current assets				
Inventories		0.5	–	0.5
Trade and other receivables		4.4	–	4.4
Cash and cash equivalents		10.5	–	10.5
		15.4	–	15.4
Total assets		28.7	–	28.7
Current liabilities				
Trade and other payables	(b)	(4.7)	(0.4)	(5.1)
Non-current liabilities				
Pension scheme liability		(2.4)	–	(2.4)
Total liabilities		(7.1)	(0.4)	(7.5)
Net assets		21.6	(0.4)	21.2
Reserves				
Non-current assets reserve		13.3	–	13.3
Inventory reserve		0.5	–	0.5
Other net current assets reserve		1.6	(0.4)	1.2
Sovereign Grant reserve		8.6		8.6
Pension scheme reserve		(2.4)		(2.4)
Total reserves		21.6	(0.4)	21.2

Reconciliation of Reserves at 31 March 2012 from UK GAAP as modified to IFRS

<i>As at 31 March</i>	Ref	As reported under UK GAAP £m	Effect of Transition to IFRS £m	Reported under IFRS £m
Non-current assets				
Property, plant and equipment	(a)	13.0	(0.3)	12.7
Intangible assets		–	0.3	0.3
		<u>13.0</u>	<u>–</u>	<u>13.0</u>
Current assets				
Inventories		0.5	–	0.5
Trade and other receivables		6.2	–	6.2
Cash and cash equivalents		5.0	–	5.0
		<u>11.7</u>	<u>–</u>	<u>11.7</u>
Total assets		<u>24.7</u>	<u>–</u>	<u>24.7</u>
Current liabilities				
Trade and other payables	(b)	(4.7)	(0.4)	(5.1)
Non-current liabilities				
Pension scheme liability		(3.4)	–	(3.4)
Total liabilities		<u>(8.1)</u>	<u>(0.4)</u>	<u>(8.5)</u>
Net assets		<u>16.6</u>	<u>(0.4)</u>	<u>16.2</u>
Reserves				
Non-current assets reserve		13.0	–	13.0
Inventory reserve		0.5	–	0.5
Other net current assets reserve		3.2	(0.4)	2.8
Sovereign Grant reserve		3.3	–	3.3
Pension scheme reserve		(3.4)	–	(3.4)
Total reserves		<u>16.6</u>	<u>(0.4)</u>	<u>16.2</u>

(a) Reclassification of software to intangible assets

Under UK GAAP, computer software is included in property, plant and equipment. In accordance with IAS 38, Intangible Assets, where the software is not an integral part of the related hardware, computer software should be classified as an intangible asset. Accordingly £0.3 million of computer software that was not integral to any associated hardware were reclassified from property, plant and equipment to intangible assets on transition to IFRS at both 1 April 2011 and 31 March 2012.

(b) Holiday pay accrual

Under IAS 19, all accumulating employee compensated absences that are unused at the balance sheet date must be recognised as a liability. There is no similar requirement under UK GAAP. An adjustment of £0.4 million was made at the transition date to recognise the holiday pay obligation at 1 April 2011. An accrual of £0.4 million was also held at 31 March 2012.

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

Property maintenance

	2013	2012
	£m	£m
Projects		
• construction	5.9	5.3
• fees	0.4	0.5
Reactive maintenance	2.8	3.1
	<u>9.1</u>	<u>8.9</u>

Travel

	2013	2012
	£m	£m
Air travel		
• Helicopter (includes operating lease payments of £0.5 million)	1.6	1.5
• Fixed wing (large)	0.2	0.5
• Fixed wing (small)	1.2	1.2
• Scheduled	0.4	0.6
Rail travel (includes imputed operating lease payments of £0.2 million)	0.9	0.9
Motor vehicles	0.2	0.3
	<u>4.5</u>	<u>5.0</u>

Utilities

	2013	2012
	£m	£m
Rates and council tax	1.0	0.4
Electricity	0.7	0.7
Gas	1.0	0.7
Water	0.2	0.2
Telephones	0.2	0.2
	<u>3.1</u>	<u>2.2</u>

Housekeeping and hospitality

	2013	2012
	£m	£m
Food and drink	1.2	1.3
Cleaning, laundry and other	0.7	0.5
	<u>1.9</u>	<u>1.8</u>

Other

	2013	2012
	£m	£m
Depreciation and amortisation of software	1.4	1.6
Information Systems and equipment	3.2	2.3
Insurance, legal advice and other professional services	0.9	0.8
Printing, postage and stationery	0.5	0.6
Other	0.8	0.7
	<u>6.8</u>	<u>6.0</u>

APPENDIX 2: TWO YEAR INFORMATION (UNAUDITED)

<i>Year to 31 March</i>	2013	2012
	£m	£m
Funding received:		
Grants	31.0	29.1
Amounts repayable to the Department for Transport		(0.1)
Draw-down from reserve	2.3	5.4
	33.3	34.4
Income		
Property rental income	3.0	2.7
Facilities management charges	3.7	3.5
Recharges for functions and other income	4.9	3.8
	11.6	10.0
Payroll costs	(18.3)	(17.5)
Other staff costs	(1.2)	(1.0)
Other expenditure		
Property maintenance	(9.1)	(8.9)
Travel	(4.5)	(5.0)
Utilities	(3.1)	(2.2)
Housekeeping and hospitality	(1.9)	(1.8)
Other	(6.8)	(6.0)
Total net expenditure	(33.3)	(32.4)
Funding for fixed assets and working capital		2.0

PERFORMANCE INDICATORS AND OPERATING RATIOS

	2013	2012
Suppliers paid within:		
15 days	59%	53%
30 days	96%	93%
Staff Numbers	436	431

APPENDIX 3: SOVEREIGN GRANT ACCOUNTS DIRECTION

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

1. The Royal Household shall prepare accounts for the Sovereign Grant and Sovereign Grant Reserve for the year ending 31 March 2013 and for subsequent years comprising:
 - (a) an Annual Report;
 - (b) a statement of income and expenditure;
 - (c) a statement of comprehensive income and expenditure;
 - (d) a statement of financial position;
 - (e) a statement of changes in equity;
 - (f) a statement of cashflows; and
 - (g) a statement of the reserve fund,including such notes as may be necessary for the purposes referred to in the following paragraphs.
2. Each of the said accounts shall be prepared on the historical cost basis and give a true and fair view of the income and expenditure, total recognised gains and losses and cash flows for the financial year, and state of affairs as at the end of the year.
3. Subject to this requirement the accounts shall be prepared in accordance with the requirements of the Government Financial Reporting Manual (FRoM) 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 FRoM, 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.



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