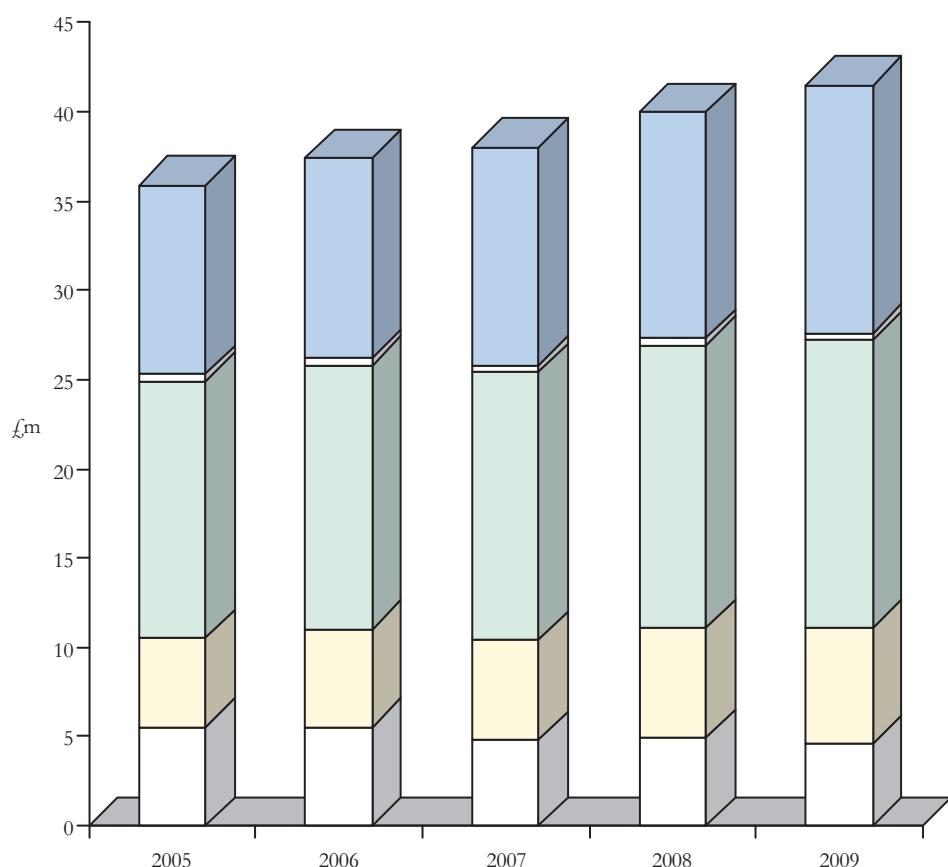


HEAD OF STATE EXPENDITURE MET FROM PUBLIC FUNDS

Five Years to March 2009



KEY¹

- The Queen's Civil List
- Parliamentary Annuities
- Grant-in-aid for Property Services and Communications and Information
- Grant-in-aid for Royal Travel by Air and Rail
- Government Departments and the Crown Estate

¹ The above colours correspond to those applied to the separate sections of this document.

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HEAD OF STATE EXPENDITURE MET FROM PUBLIC FUNDS

<i>Year to 31st March</i>	2009 £m	2008 £m
The Queen's Civil List ²	13.9	12.7
Parliamentary Annuities	0.4	0.4
Grants-in-aid	22.6	22.0
Expenditure met directly by Government Departments and the Crown Estate	4.6	4.9
	41.5	40.0
	=====	=====

Head of State expenditure is met from public funds in exchange for the surrender by The Queen of the revenue from the Crown Estate. Head of State expenditure for 2008-09 has increased by 1.5% in real terms compared to the previous year. The increase in real terms is mainly due to salary inflation, investment in information technology and web-site development and increased use of commercial charter flights to compensate for lower availability of 32 Squadron. Since 2001 Head of State expenditure has reduced by 1.3% in real terms.

Expenditure on The Queen's Civil List and Grants-in-aid include £2.1 million of VAT (2007-08: £2.6 million) following recovery of £0.5 million VAT in respect of prior years in 2008-09.

Head of State expenditure excludes the costs of security provided by the Police and Army and of Armed Services ceremonial.

The above figures for The Queen's Civil List and the Grants-in-aid are based on audited figures, the accounts of which are included in this report. The other figures are not audited.

A chart showing the Head of State expenditure for the past five years is set out on page 1.

² Figures are for calendar years 2008 and 2007

THE QUEEN'S DUTIES

The Queen's duties as Head of State include:

- undertaking constitutional duties, for example the State Opening of Parliament, regular audiences with the Prime Minister, meetings of the Privy Council, giving Royal Assent to legislation and approving many appointments;
- fulfilling constitutional responsibilities in relation to the Scottish Parliament and, where appropriate, the Welsh and Northern Ireland Assemblies;
- carrying out State and Royal Visits overseas and receiving State and Official visitors to the United Kingdom;
- receiving credentials from foreign Heads of Mission; and
- presenting honours at Investitures.

In addition, the role of The Queen, supported by members of the Royal Family, extends more widely than these formal duties and includes:

- providing a focus for national identity, unity and pride (for example on Remembrance Sunday and at times of national celebration or tragedy);
- providing a sense of stability and continuity (for example by participating in traditional ceremonies such as Trooping the Colour);
- recognising success, achievement and excellence (for example through visits, receptions and awards); and
- contributing through public service and the voluntary sector to the life of the nation; in this area The Queen is particularly supported by the work of other members of the Royal Family (e.g. The Prince's Trust and The Duke of Edinburgh's Award Scheme).

THE QUEEN'S CIVIL LIST

The eighth published annual accounts for the Civil List, which are for the year to 31st December 2008, are set out in this report. The accounts are prepared in a form directed by The Treasury Officer of Accounts, in accordance with Section 9 of the Civil List Audit Act 1816.

Further information on the historical and legislative background for the Civil List can be found on the official website of the British Monarchy, www.royal.gov.uk.

The detailed annual report showing how the Civil List has been spent during 2008 is shown in pages 41 to 58 of this report.

The Civil List does not fund the official duties of The Prince of Wales or other members of the Royal Family which are met from income from the Duchy of Cornwall and the Privy Purse respectively.

PARLIAMENTARY ANNUITIES

A Parliamentary Annuity was paid to The Duke of Edinburgh. The annuity was primarily to meet official expenses incurred in carrying out his public duties.

GRANTS-IN-AID

<i>Year to 31st March</i>	2009	2008
	£m	£m
Property Services	15.5	15.3
Communications and Information	0.6	0.5
Royal Travel	6.5	6.2
	<hr/> 22.6	<hr/> 22.0
	<hr/> =====	<hr/> =====

The Royal Household's objectives in managing Property Services in the Occupied Royal Palaces and Communications and Information expenditure are set out in the Memorandum of Understanding between the Lord Chamberlain and the Permanent Secretary of the Department for Culture, Media and Sport and the Financial Memorandum, both dated 28th September 2006.

Property Services

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

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

These properties are referred to as the “Occupied Royal Palaces” or the “Estate” with an aggregate floor area estimated at approximately 160,000 square metres. The Buckingham Palace, St James's Palace and Windsor Castle State Apartments, together with offices, service areas, workshops, stores, coach houses, stables and garages, represent approximately 75% of the total area. In addition there are The Queen's Gallery at Buckingham Palace, some 217 properties allocated for residential use mainly by staff and pensioners and 29 properties used as communal residential accommodation for staff.

The Occupied Royal Palaces are held in trust for the nation by The Queen as Sovereign. Their maintenance and upkeep is one of the expenses met by the Government in return for the surrender by the Sovereign of the Hereditary Revenues of the Crown (principally the net surplus from the Crown Estate which amounted to £211 million in the year to 31st March 2008 (2006-07: £200 million)). The Department for Culture, Media and Sport has overall responsibility for the maintenance of and provision of services to the Occupied Royal Palaces; however, with effect from 1st April 1991, management and operating responsibility was transferred to the Royal Household. A new department of the Royal Household, called the Property Section, was established in 1991 to take on this work.

The Occupied Royal Palaces are used by the Sovereign in fulfilling the role and functions of Head of State and by other members of the Royal Family in support of The Queen. The Queen invited approximately 90,000 guests (2007-08: 70,000) to the Palaces and there were approximately 1.72 million (2007-08: 1.70 million) paying visitors. The net contribution after the associated maintenance costs of admitting visitors to the Occupied Royal Palaces goes towards the upkeep, conservation and presentation of the Royal Collection (see reference on page 10 and the Royal Collection Annual Report which is published separately).

Communications and Information

The Royal Communications and Information Grant-in-aid is the annual funding for communication and information services for official royal functions and engagements.

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

Royal Travel

The Royal Travel Grant-in-aid is the annual funding provided by the Department for Transport to meet the cost of official royal travel by air and rail. Up to 31st March 1997 the official royal travel costs were met by the Ministry of Defence, the Department of Transport and the Foreign and Commonwealth Office (FCO).

Responsibility for the expenditure was transferred to the Household with effect from 1st April 1997 in order to:

- facilitate cost reductions and enhance value for money by matching financial and user responsibility; and
- improve accountability and transparency, and enable a detailed annual report to be published, by giving one organisation responsibility for royal travel expenditure.

The Memorandum of Understanding dated 25th March 1997 between the Lord Chamberlain and the Permanent Secretary of the Department of Transport (now the Department for Transport – “the Department”), sets out the basis on which the Royal Household should use and account for the annual Royal Travel Grant-in-aid provided to it by the Department. The Memorandum of Understanding requires the Private Secretary to The Queen and the Keeper of the Privy Purse, the Royal Household officials with responsibility for the Grant-in-aid, to account for its stewardship in an annual report.

It is an important part of The Queen’s role as Sovereign, supported by other members of the Royal Family, to act as a focal point for national life and to bring people together across all sectors of society. In carrying out this role the Royal Family receives thousands of invitations each year from or on behalf of Government, the Church, local authorities and the Armed Services, and a wide range of individual organisations across the private, public and voluntary sectors.

In 2004-05 it was agreed between UK Trade & Investment (UKTI) and the Department for Transport that the costs of The Duke of York’s official overseas travel as Special Representative of UKTI should be met by the Grant-in-aid.

Detailed accounts showing how the Grants-in-aid have been spent during 2008-09 are shown on pages 59 and 93 of this report.

EXPENDITURE MET DIRECTLY BY GOVERNMENT DEPARTMENTS AND THE CROWN ESTATE

<i>Year to 31st March</i> ³	2009 £m	2008 £m
Administration of honours	0.6	0.7
Equerries, orderlies and other support	1.4	1.4
Maintenance of the Palace of Holyroodhouse	1.2	1.1
State Visits to and by The Queen and liaison with the Diplomatic Corps	0.4	0.7
Ceremonial occasions	0.2	0.2
Maintenance of the Home Park at Windsor Castle	0.6	0.6
Other	0.2	0.2
	4.6	4.9

Equerries and orderlies are seconded from the Armed Services to assist The Queen and other members of the Royal Family in undertaking their official duties. The Palace of Holyroodhouse is The Queen's official residence in Scotland.

COSTS 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 by Her Majesty to meet official expenditure. 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. Accounts for the Duchy of Cornwall are published and laid before Parliament annually.

³ Figures are not audited

The Royal Collection

The Royal Collection receives no funding from the Government or the National Lottery. It 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, except for some building occupancy costs, are met by The Royal Collection Trust from visitor admissions to the Occupied Palaces and from related activities. Around five million people saw items from the Royal Collection in royal palaces during 2008-09 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.

Marlborough House

This is the annual funding introduced in 1999-2000 to meet the cost of property maintenance at Marlborough House, which is occupied by the Commonwealth Secretariat and the Commonwealth Foundation. The maintenance was previously funded by the Department for Transport, Local Government and the Regions and transferred to the Department for Culture, Media and Sport so that it could be incorporated into the Royal Household's existing Grant-in-aid. As for the maintenance of the Occupied Royal Palaces in England, the objectives are to facilitate value for money and improve accountability and transparency by publishing a detailed annual report.

The Royal Household is only responsible for major building work and the Custody Guards. Costs in respect of minor and grounds maintenance, specialist term contracts, utilities and other sundry matters are recovered from the Commonwealth Secretariat. The Royal Household maintains Marlborough House in effect as a contractor for the Department for Culture, Media and Sport and therefore the costs of property maintenance are not included in Head of State Expenditure.

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 as follows:

- Plan and deliver first-class Royal events
- Provide high quality advice and effective input into policy issues
- Communicate effectively the role and activities of the Monarchy
- Support/influence all Royal Households
- Maintain and make accessible the Royal Collection
- Continue to develop a diverse team of well led, trained and adaptable professionals
- Ensure best value from resources
- Ensure internal business process/infrastructure provides the best possible support

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 once a month. Its members are as follows:

- Lord Chamberlain - The Earl Peel

Heads of Departments:

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

Non-executive members:

- Private Secretary to The Duke of Edinburgh - Brigadier Sir Miles Hunt-Davis
- Principal Private Secretary to The Prince of Wales and The Duchess of Cornwall - Sir Michael Peat

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

The division of responsibilities across the Grants-in-aid and Civil List funding sources is as follows:

	The Civil List	Property Services, Communications and Information and Marlborough House	Royal Travel
Private Secretary to The Queen	Private Secretaries, Researchers, Press Office, Records Management, Security Liaison	Communication and Information Policy	Travel Policy, Security and Safety
Keeper of the Privy Purse	Finance, Personnel, IT and Telecoms, Internal Audit	Supervision and direction, Fire, Health and Safety Services, Communication and Information Finance, Marlborough House	Travel Finance and Operations
Master of the Household	Event Management, Catering and Hospitality, House Management (Occupied Royal Palaces), Logistics	Craftsmen	
Comptroller, Lord Chamberlain's Office	Ceremonial, Royal Mews, Medical, Ecclesiastical		

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

The Royal Travel Office, headed by the Director of Royal Travel, is responsible for organising the provision of travel services and for the in-house helicopter operation and is supported in financial matters by the Deputy Treasurer to The Queen.

REMUNERATION REPORT

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

- The Cabinet Secretary - Sir Gus O'Donnell
- The Permanent Secretary to the Treasury - Sir Nicholas Macpherson
- The Lord Chamberlain - The Earl Peel
- Treasury Officer of Accounts and Secretary to the Committee - Paula Diggle

The salaries of the remaining members of the Lord Chamberlain's Committee are set with reference to Senior Civil Service pay scales. Their salaries are reviewed annually and for the 2008-09 financial year they received a cost of living increase plus a performance related pay element up to a maximum of 4.5%.

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 the Civil List (before the deduction of abatements and other charges in respect of housing), are shown below.

<i>Year to / as at 31st December</i>	Salary		Pension Payments	
	2008-09 £'000	2007-08 £'000	2008-09 £'000	2007-08 £'000
The Earl Peel	81	78	12	12
The Rt Hon. Christopher Geidt	155	131	22	20
Sir Alan Reid	194	187	31	30
Air Vice-Marshal David Walker	112	107	39	37
Lt Col. Andrew Ford	96	90	14	14

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.

Air Vice-Marshal David Walker is seconded from the Ministry of Defence on a contract that is reviewed periodically. The next review date will be in 2012. The salary shown above is his secondment cost (excluding VAT) charged to the Civil List. All other members of the Lord Chamberlain's Committee are appointed on permanent contracts. All members of the Lord Chamberlain's Committee have notice periods of between three and six months. There are no specific provisions for termination payments.

Sir Hugh Roberts is not included in the above table because he is paid from other funding sources.

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

The Committee members' performance is assessed by The Lord Chamberlain through an annual appraisal process.

The Earl Peel

The Lord Chamberlain

4th June 2009

OPERATING APPROACH

The Civil List

The Royal Household's overriding aim in managing the Civil List is 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.

Property Services

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. It receives its Grant-in-Aid via the Department for Culture, Media and Sport which sets three main objectives in managing property services, as follows:

- (a) 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 that end
- (b) to organise and obtain works and other property services in the most economic, efficient and effective way and to achieve financial and other performance targets; and
- (c) to seek to contract in the most economical and efficient manner for the supply of all services.

The Property Section has broken these down into five operating objectives, which focus on conserving, repairing and maintaining the estate in a professional manner; strengthening a culture of excellence; recruitment, retention and development of professional staff; improvements to customer care, efficiency and adaptability; and development of a culture of health and safety across the Household.

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;
- the operating requirements of the Departments of The Queen's Household and of the other Households and organisations which use the buildings; and
- new legislation and regulations as they affect, *inter alia*, construction, fire precautions and health and safety.

The work of the Property Section is governed by a comprehensive set of procedures referred to as "Desk Instructions". These cover items such as project justifications, planning and specification, competitive tendering, the commissioning and management of contractors and design team consultants, fire precautions, and the control and authorisation of provisional sums, contract variations, overruns and Construction (Design and Management) Regulations. All projects with a construction cost of £3,500 or more are individually detailed in an annual works programme and Ten Year Plan showing projected and actual costs, which is updated on a monthly basis.

Royal Communications and Information

The Royal Household's objectives in managing Royal Communications and Information are:

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

The Queen's engagements throughout England, Scotland and Wales are covered by the Buckingham Palace Press Officers and a Press Officer at the Palace of Holyroodhouse.

The Government News Network (GNN) provides:

- (a) electronic and conventional press announcements distributed to national and regional media - 140 press announcements were made in this way (2007-08: 119); and
- (b) daily media summaries of current news stories for The Prince of Wales when he is on official visits overseas. Similar summaries are produced by the FCO for The Queen, when on official visits overseas.

The British Monarchy website (www.royal.gov.uk) is a primary source of reference for media and members of the public. It contains information on the work and constitutional role of The Queen, biographies of members of the Royal Family, and the history and use of Royal Palaces, as well as media announcements and a history section on the English, Scottish and United Kingdom Crowns.

The Monarchy website underwent a complete overhaul and rebuild in 2008-09 to cater for the new media environment and increased user demands. The original site was launched in 1997 and was upgraded again in 2001. The website attracts 300,000 visitors each week, with 2.0 million pages viewed.

Royal Travel

The Royal Household's objectives in managing Royal Travel expenditure are:

- (a) to seek to contract in the most economic and efficient way for the supply of air and rail services, consistent with safety, security, and other requirements of Royal Travel; and
- (b) to ensure that members of the Household take financial considerations fully into account when framing, reaching, or giving effect to decisions which bear upon the Grant-in-aid.

The Grant-in-aid meets the cost of official journeys undertaken by or in support of members of the Royal Family by air and rail. Travel by senior members of the Royal Family 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 FCO and UKTI, and approved by the Royal Visits Committee.

Marlborough House

The Royal Household's objectives in managing the maintenance of Marlborough House are set out in the Memorandum of Understanding dated 28th September 2006 between the Lord Chamberlain and the Permanent Secretary of the Department for Culture, Media and Sport. They are:

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

AUDIT COMMITTEE

The Audit Committee, which reports to the Lord Chamberlain's Committee, has overall responsibility for monitoring the effectiveness of the system of internal control, including financial, operational and compliance controls and risk management. It comprises three members: Nigel Turnbull (non-executive Chairman and Chairman of the Turnbull Committee, which produced the Corporate Governance report on Internal Control), Air Vice-Marshal David Walker (Master of the Household), and Leslie Ferrar (Treasurer to The Prince of Wales and Duchess of Cornwall) who replaced Brigadier Sir Miles Hunt-Davis from 5th June 2008. In undertaking its responsibilities, the Audit Committee has considered reports from both internal and external auditors and management, and will make recommendations to the Lord Chamberlain's Committee throughout the year.

The Audit Committee meets at least three times a year. Meetings are attended by the Head of Audit Services, the Keeper of the Privy Purse, the Deputy Treasurer to The Queen, the Treasury Officer of Accounts and KPMG LLP, who are the external auditors. Other senior managers in the Royal Household attend when invited by the Committee.

Matters dealt with by the Committee include: approving terms of engagement for the external auditors; reviewing and approving audit plans, annual reports and management reports from internal and external auditors; reviewing the Royal Household risk register; reviewing the implementation of audit recommendations; and reviewing the statement of internal control. The Audit Committee also examines issues that may impact on risks within the Royal Household. During the year these have included reviews of information security management and the National Audit Office report on Maintaining the Occupied Royal Palaces published in December 2008.

EMPLOYMENT POLICIES

The Royal Household's employment policies and practices have been developed to encourage a motivated, adaptable and skilled workforce.

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 has introduced a number of wellbeing initiatives with the aim of fostering a culture of motivation and engagement, promoting healthy lifestyles and encouraging the retention of key staff. These include the formation of a Welfare and Lifestyle Committee with staff representatives, the promotion of the Royal Household Football, Sports and Social Club and the implementation of flexible working, as well as various health and fitness initiatives.

Staff consultation is a key element of the Royal Household's employee relations strategy, with a number of channels of communications including "royal@work" (the staff intranet), staff briefings, a staff survey conducted every three years, 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 from public funds receive a summary copy of this report, highlights of which are published on the intranet.

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

TRAINING

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, National Vocational Qualifications in Heritage Care and Visitor Services, Customer Services and Retail Skills, through to highly specialised courses for Royal Travel 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.

SOCIAL RESPONSIBILITY

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

An Environment Committee reports on measures 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 the activities of the Royal Household 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 for this purpose.

FIRE HEALTH AND SAFETY

Fire Safety

Automatic fire detection systems are installed throughout the Estate and are monitored continually to ensure they work effectively. The systems are maintained under preventative term contracts which are competitively tendered every three to five years. Systems are regularly reviewed to ensure that they remain suitable for the risk and at present the fire alarm panels, which are now obsolete, are being replaced to meet current standards.

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 and to augment the provision of structural fire compartmentation.

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.

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

Health and Safety within the Royal Household is coordinated by the central Health and Safety Branch. This team is supported by first aiders and health and safety representatives within all departments across the Royal Household. Proactive consultation is undertaken throughout the year, with the team giving advice through workplace inspections and risk assessment. A Health and Safety Committee Meeting takes place in London, Windsor and Edinburgh once a year.

The Royal Household's Health and Safety Policy documentation provides comprehensive procedures to ensure that high standards of health and safety management are maintained. The health and safety culture throughout the Royal Household, whilst improving, is under continual review and supplemented by training from both in-house and external sources. Communicating a positive approach to health and safety remains the current focus of attention.

The branch occasionally undertakes the role of CDM Coordinator on projects that fall within the requirements of the Construction (Design and Management) Regulations 2007. Generally, however, projects are contracted to competent consultants.

OPERATING AND FINANCIAL REVIEW

OVERVIEW OF THE YEAR

As in the previous year, The Queen undertook over 400 engagements to cities and towns in England, Scotland, Wales and Northern Ireland and entertained around 50,000 people (2007: 38,000) at eight (2007: six) Garden Parties held at Buckingham Palace and the Palace of Holyroodhouse.

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

THE CIVIL LIST

The Queen's programme for 2008 was set within what turned out to be another very busy year. Highlights of The Queen's programme have included the following:

- A State Visit to Turkey during May 2008 at the invitation of President Abdullah Gul, during which The Queen and The Duke of Edinburgh visited Ankara, Bursa and Istanbul. The Queen and The Duke of Edinburgh laid a wreath at the tomb of Mustafa Kemal, the founder of modern Turkey, in the capital Ankara.
- A State Visit to Slovenia and Slovakia in October 2008 meeting with The President of the Republic of Slovenia and The President of the Slovak Republic. This was the first visit by The Queen and The Duke of Edinburgh to both Slovenia and Slovakia and it focused mainly on the subjects of partnership, social inclusion and environmental issues.
- The Queen and The Duke of Edinburgh visited the Royal School Armagh to mark the Four Hundredth Anniversary of the foundation of the five Royal Schools of Ulster.
- The Queen paid her respects to legendary mountaineer Sir Edmund Hillary as she hosted a memorial service at St George's Chapel, Windsor Castle in his honour.
- Inward State Visit by the President of the French Republic and Madame Nicolas Sarkozy in March 2008 during which The Queen hosted a State Banquet in honour of President Sarkozy at Windsor Castle.
- The Queen, accompanied by The Duke of Edinburgh, officially opened Terminal Five at Heathrow Airport in March 2008. Additionally, there were visits to Oxfordshire, Yorkshire, Cumbria, Southampton, Liverpool, Devon, Swansea, Hertfordshire and Manchester.
- There were 32 (2007: 27) Investitures at Buckingham Palace, the Palace of Holyroodhouse and for the first time, at Windsor Castle during which around 2,600 (2007: 2,600) people received honours. A Diplomatic Reception was held in November 2008 at Buckingham Palace; approximately 1,000 diplomats and British guests attended. Additionally, there were receptions at Buckingham Palace for Backbench Members of Parliament and MEP's, the Commonwealth Education Fund, The Queen's Award for Enterprise, the Olympics and Paralympics, and British Hospitality.

FINANCE

Key developments during the year have included the upgrade of the accounting system and the introduction of a common chart of accounts from 1st April 2008.

In order to facilitate the prompt payment of suppliers, the Royal Household implemented BACS processing in November 2008. Work continued on the automation of purchase ordering in Civil List funded departments and should be complete by the end of 2009.

INFORMATION SYSTEMS

2008 saw the implementation of several new IT systems within the Royal Household network, including new personnel and payroll, accounting and archive systems. For consistency and to reduce costs these systems will be shared with users in the Royal Collection and the Household of The Prince of Wales and The Duchess of Cornwall.

A new IT disaster recovery facility has also been built and tested for use by the Royal Household and Royal Collection networks. Additional projects have also been completed to improve network security and information assurance in line with government recommendations.

The Information Security Committee, which comprises the Directors of Security Liaison, IT and Telecommunications, and Records, reports to the Keeper of the Privy Purse in his capacity as Accounting Officer. During 2008-09 there has been further development of the information asset register. New procedures and supporting software, including automated protective marking are being introduced in line with the Government's updated "Security Policy Framework" and the "Data Handling Procedures in Government" report.

PERSONNEL

A number of initiatives in 2008 ensured progress in employment practices: the staff survey was completed with feedback and assessment of progress made since the last survey in 2006; the success of the competency framework was assessed and incorporated into recruitment processes; and initiatives were launched to enhance talent management and succession planning for managerial posts.

The staff intranet "royal@work", was upgraded and improved and a number of successful feedback sessions for newly appointed staff were led by the Lord Chamberlain, who also opened the improved induction days attended by new recruits during the year.

A new integrated Personnel, Payroll and Pensions system was successfully implemented and a pilot programme of "Self service" whereby staff can access and update their records and managers use the Personnel database, was successfully launched.

The Personnel office also initiated the introduction of an e-recruitment system to fully utilise the capacity of the internet to reach a wide candidate base and ensure all vacancies are processed speedily and effectively.

Learning and Development opportunities within the Household were expanded to include more emphasis on individual and team coaching events, also particularly in the latter context, deploying psychometric assessment tools along with shorter programmes on Communication and Networking skills and breakfast sessions on teamworking.

PROPERTY SERVICES

The Department for Culture, Media and Sport confirmed that funding for Property Services will remain at £15 million for the three years 2008-11. At the end of that period it will have remained at that level for twelve years. While Property Services was successful in early years in eliminating the building backlog inherited in 1991, this is inevitably building up again since expenditure in real terms has reduced by 68% when compared with the 1991-92 level.

During 2007-08 the Director of the Property Section undertook a review of the systems for prioritising maintenance across the Estate and developed a clearer understanding of the backlog of works. At March 2008 it was assessed that if the Grant-in-aid remains unchanged at £15 million over the next ten years the backlog of essential works such as the renewal of services and replacement of roofs, would be £32 million in today's money. As the prioritisation system is developed and estimates refined based on condition assessments, the movement in the backlog is being closely monitored and at 31 March 2009 it is estimated to have increased by £8 million to £40 million. Key projects in the backlog of essential works for which there are unlikely to be funds available in the next ten years include:

- renewal of lead and slate roofs at Buckingham Palace and Windsor Castle (£13 million);
- refurbishment of State Rooms at Buckingham Palace and Windsor Castle (£4.5 million) which were not included in the previous year's calculation of backlog;
- replacement of existing heating and electrical services at Buckingham Palace, with associated asbestos removal (£2.4 million);
- replacement of cast iron and lead Victorian water mains at Windsor (£3 million);
- much needed conservation work at the Victoria and Albert Mausoleum (£2.8 million), which will therefore remain on English Heritage's Buildings at Risk register.

The remaining backlog of £14 million relates to projects which would give operational or environmental improvements across the Estate.

In accordance with the National Audit Office report in December 2008, the Royal Household will continue to work with the Department for Culture, Media and Sport to agree the criteria for assessing the backlog and thereby improve the estimate of funding required.

The Royal Household continues to pursue opportunities to reduce costs and generate income from the Estate's assets. However, these initiatives alone are unlikely to be successful in averting the growth in backlog in future years and further Grant-in-aid funding will be required.

MAJOR PROJECTS IN THE YEAR

In 2008-09 a total of 237 revenue funded projects over £3,500 in value were carried out across the estate. One of these projects had a construction works spend in excess of £250,000 in the year and accounted for 5% of the total project spend across the whole estate.

Refurbishment of Apartment 2, St James's Palace (£0.3 million)

Apartment 2 is located above the State Apartments at second and third floor levels, the only access being via a spiral staircase. The four bedroom apartment was completely refurbished in 2008-09, with a new fitted kitchen, renewal of bathrooms, and replacement and alteration of some mechanical and electrical services. The whole apartment was redecorated internally and timber flooring was laid in the two main reception rooms.

In addition, the following project funded from a capital grant had a spend of over £250,000 in the year:

Refurbishment of staff accommodation at the Rear of the Royal Mews, Buckingham Palace (£2.1 million works, £0.2 million fees to date)

In 2005-06, a small area of land was sold at the Royal Garden Hotel, Kensington, generating proceeds of £2.5 million which were paid over to the Department for Culture Media and Sport in accordance with the terms of the Memorandum of Understanding. However, it was agreed that £2 million of the proceeds would be provided by means of capital funding to Property Services. During 2008-09 Property Services drew £1.1 million (2007-08: £0.7 million) of this capital funding towards a project for the modernisation and refurbishment of buildings to the rear of the Royal Mews area of Buckingham Palace to create accommodation for staff.

The Royal Mews contains offices, store rooms, plant rooms, garages, stables and self contained flats. Seventeen flats at the rear of the Royal Mews which had not been refurbished for many years, were left vacant as occupants moved out over a 4 - 5 year period so that they could be refurbished as single persons accommodation (with the option to easily convert back to self contained flats). External walkways have been added to improve access to the various flats. The scope of refurbishment includes asbestos removal, installation of new boilers and heating systems, re-wiring to modern standards, installation of secondary glazing to rooms overlooking the main road, upgrading of AFD systems to incorporate voice alarms, redesign and renewal of all bathrooms and kitchens, fire compartmentation, provision of better means of escape and complete internal and external redecoration.

Work commenced on the main part of the contract in the autumn of 2007 and will be completed by early summer in 2009. The total cost to the Grant-in-aid, including fees and VAT, is estimated at £2.5 million.

FEES

The Property Section has a relatively small in-house staff and, for more complex projects and for those with a construction cost of approximately £0.1 million or more, external architects, structural engineers, mechanical and electrical engineers and quantity surveyors are employed. The majority of design and contract documentation was undertaken by external architects and other consultants for 69 of the 237 projects in progress during the year (2007-08: 57 out of 180). The 2008-09 fee ratio for these 69 projects, including the appropriate proportion of in-house supervision costs, was 8.7% (2007-08: 7.5%). The overall ratio, including smaller projects, for which the architectural and other services are largely provided by in-house staff, was 18.2%, as mentioned on page 62 (2007-08: 17.0%).

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.

FACILITIES MANAGEMENT CHARGE

The Property Section charges the Royal Collection for the use of facilities at Windsor Castle in connection with the admission of visitors, which amounted to £2.0 million in 2008-09 (2007-08: £1.8 million).

SUPERVISION

Supervision includes the payroll cost of the Property Maintenance Central Unit and of the Property Managers, Building Surveyors and Administration staff after netting off recharges to other funding sources. Further details are provided in note 3 to the accounts on pages 73 and 74. It also includes the cost of measured and condition surveys, property-related consultancies and computer equipment and office supplies for property maintenance staff.

UTILITIES

Considerable emphasis is placed on energy conservation, both to save costs and to reduce environmental pollution. As a result of work undertaken to estimate the Household's carbon footprint it was identified that the two principal areas to target for a reduction in carbon emissions are electricity and gas consumption across the Estate.

Electricity

In 2008-09 approximately 8.5 million kWh (2007-08: 8.7 million kWh) were consumed on the Estate, a saving of 1.6%. The combined heat and power units (CHP) located at Buckingham Palace and Windsor Castle produced 2.8 million kWh of this consumption (2007-08: 2.6 million kWh).

Gas

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. In 2008-09 approximately 25.0 million kWh (2007-08: 24.2 million kWh) were consumed on the Estate.

Carbon Emissions

Lower consumption of electricity and increased generation of electricity through the CHP units in 2008-09 was offset by greater consumption of gas which increased carbon emissions on electricity and gas by 0.2% (2007-08: -3.7 %).

Water and Sewerage

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

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

Telephones

The Royal Household currently receives more than 700,000 calls a year of which over 400,000 incoming calls were handled by the switchboard operators during 2008-09 (2007-08: 360,000). Five full-time telephone operators are employed at Buckingham Palace who together with the fire team at Windsor Castle provide a twenty-four hour, seven day a week switchboard service.

During 2008 the Household benchmarked all its fixed telecoms costs and renegotiated new tariffs and maintenance terms with its suppliers leading to cost savings. In addition, a mobex facility was provided to integrate mobile phones into the telecoms system.

Buckingham Palace is linked to other Royal palaces via private wires and fibre optic links and during the year additional links were implemented for resilience and a full disaster recovery test was carried out.

NON-DOMESTIC RATES

A contribution in lieu of non-domestic or business rates is paid in respect of those areas of the Palaces which are not used for domestic purposes (e.g. offices and workshops). This contribution is as notified by the Government Valuation Office. Council Tax is paid from the Grant-in-aid for properties that are vacant and for hostel accommodation. The Royal Family and all other residents with self-contained accommodation pay their own Council Tax, except for the Chaplain (in accordance with normal arrangements for the clergy).

COURT POST OFFICE

Royal Mail staff operate the Court Post Office, providing a wide range of services including:

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

GARDENS

Buckingham Palace

The garden covers an area of approximately 39 acres including the lake. The gardeners at Buckingham Palace are also responsible for the flower beds and grass areas at Kensington and St James's Palaces, an aggregate area of approximately 15 acres. Approximately 41,000 (2007-08: 31,000) people walked round the Buckingham Palace garden during the summer Garden Parties and around 392,000 (2007-08: 360,000) people saw parts of the garden as they walked out through it, having visited the Buckingham Palace State Apartments. In addition, 20,000 (2007-08: 25,000) people walked around the garden of Clarence House during summer opening visits.

Windsor Castle

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

FURNITURE AND EQUIPMENT

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

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

RENT AND OTHER RECOVERIES

Rent receivable includes commercial lettings of apartments and properties, and payments in respect of non-official employees housed on the Estate and from pensioners allocated their accommodation since the Household assumed responsibility for Property Services on 1st April 1991. In addition, income is received from the Royal Windsor Horse Show and Royal Collection Enterprises for the use of office accommodation at Windsor Castle and St James's Palace, and from the College of St George for the temporary use of residential accommodation at Windsor.

Commercial lettings of properties averaged 35 in 2008-09 (2007-08: 27).

COMMUNICATIONS AND INFORMATION

The website underwent a review and subsequent relaunch in 2008-09 during which target audiences such as citizens from the Commonwealth realms, school teachers and members of the media were consulted on their requirements. The new site, which went live in February 2009, contains a number of new and enhanced features including extensive image galleries, integration with YouTube (which eradicates video hosting costs) and searchable Google maps showing past and future Royal engagements.

A new Content Management System (CMS) enables a more flexible approach to the development of content on the site and less involvement from external agencies. The more user-friendly CMS also means that editorial management of the site can be undertaken by a greater number of users within the Royal Household, making updates more regular and efficient.

The Duke of York's business microsite was also relaunched in February 2009. The site is aimed at the business media and companies who already have or are looking to establish a working relationship with the Duke in his role as Special Representative for UK Trade and Investment.

ROYAL TRAVEL

Almost 3,000 official engagements were undertaken across the United Kingdom and overseas by members of the Royal Family during the year to 31st March 2009. 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 49 (2007-08: 43) journeys undertaken by members of the Royal Family and their staff during 2008-09 which had travel costs of £10,000 or more, met from the Royal Travel Grant-in-aid, is given on pages 110 to 115.

The largest tours during the year were those undertaken by The Queen to Turkey, Slovenia and Slovakia and The Prince of Wales and The Duchess of Cornwall to South America and to Japan, Brunei and Indonesia.

The environmental impact of Royal 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 and UK Trade and Investment, the Household aim to minimise this impact without compromising the ability of The Queen and members of the Royal Family to fulfil their official duties. With effect from 1st January 2007, the Royal Household has participated in the Government Carbon Offsetting Fund. In 2008-09, 2,587 tonnes of carbon are due to be offset at a cost of £46,000 (2007-08: 3,036 tonnes at a cost of £54,000).

FUTURE DEVELOPMENTS

Developments planned for the next year include the following:

INFORMATION SYSTEMS

Throughout 2009 several projects will be undertaken including merging the IT networks of the Royal Household and Royal Collection into a single network, providing automatic protective marking of all documents and the replacement of all wide area network circuits.

A further project will be undertaken to provide real time replication of Royal Household data to the disaster recovery site built last year.

TELECOMMUNICATIONS

Following the work completed during 2008 to add resilience to the telecoms service, further work will be undertaken during 2009 to review the case for video conferencing facilities at the main sites. In addition, work will be carried out on the implementation of a single number facility for all staff.

FINANCE

The introduction of new automated purchase order processing systems for the Civil List and the development of management information, particularly in the area of carbon management reporting will be the main developments in 2009-10.

PERSONNEL

In 2009, the benefits of the new database and web based recruitment system will be further developed and over the next 12 months Personnel will be extending the self service facility to all Departments of the Household.

Training plans for 2009 have been tailored to support the Household-wide Investors in People initiative and its commitment to Diversity and Equal Opportunities.

The Household intranet will be re-designed to mirror the “look and feel” of the new Royal Household web site.

PROPERTY SERVICES

The Annual Works Programme and Ten Year Plan of the Property Section has a number of major projects which aim to meet the objectives set by the Department for Culture, Media and Sport, as follows:

Repair of the Quadrangle Façade at Buckingham Palace

The main part of Buckingham Palace was built in a 'C' shaped plan to the designs of John Nash in 1825, but the wing at the front of the Palace was built in 1846 to form an enclosed Quadrangle. This East wing was constructed of Caen stone, but the facades were painted in 1853, only seven years after its completion, because stone had started to crumble. In 1913, the Mall façade was re-faced in Portland stone, but the Quadrangle façade remained painted. In May and October 2006 large pieces of stone fell from this façade and further loose fragments were removed immediately afterwards. It is now a major risk to health and safety and it is estimated that the repair of this façade will cost in the region of £3 million over the next three years. Following completion of a trial area, the main contract commenced in January 2009 and is due for completion in the summer of 2010. The works comprise removal of nineteen coats of oil paint using chemical strippers, replacement of defective stone (including carving of decorative features), re-pointing and protection of 'sky' surfaces with lead.

Replacement of Services at Buckingham Palace

Over the next ten years or so, it is intended to replace the heating, hot-water and electrical services throughout the Palace, most of which is over 40 years old. Initially main fuse boards will be replaced, but with the completion of the Back Mews and vacating of areas that could be used as temporary accommodation, it is proposed to replace services within one half of one wing of the Palace at one floor level a year. Asbestos removal will be part of this programme and the opportunity will be taken to install containment for data and telephone services to allow them to be upgraded in the future with relative ease.

Internal Refurbishments at St James's Palace

In 2004-06, office areas within York House and Apartment 32 were refurbished, but the Central Chancery remains outstanding. Similar works are urgently required to replace the electrical services, which are at the end of their life and are difficult to modify and maintain. At the same time, heating and hot-water services will be replaced, which will require the removal of asbestos contamination. New services will include data and telephones, using Cat 5 cabling.

To enable this project to be undertaken, Birdman's Lodge, which has been vacant for over five years, has been refurbished as office accommodation for the Property Section. This will allow the former Property Section offices in Apartment 22 to be used as temporary space for the Central Chancery. On completion, it may be possible to commercially let Apartment 22.

External Fabric Repairs

The long-term programme of external fabric repairs at Buckingham Palace and Windsor is extensive and is therefore dependent on increased funding. It is however intended to manage a limited programme of repairs over the next five years and the roof to the Ballroom at Buckingham Palace has become urgent as leaks have damaged the contents beneath. Other work to the Palace will need to be deferred for two to three years in view of the expenditure on the Quadrangle façade and ballroom roof, as will the roofs of the Upper Ward in Windsor Castle. It is proposed, however, to replace some lead and slate roofs in the Home Park which are in poor condition.

Commercial Lettings

Every opportunity is taken to maximise income to offset a static Grant-in-Aid through growth in the number of properties available for commercial letting. The key consideration is that the initial investment in refurbishment has a reasonable payback. The Property Section, as recommended by the National Audit Office, is preparing 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. It is anticipated that this will result in refurbishment projects in London being prioritised to achieve higher levels of income generation.

Condition Monitoring

One of the recommendations arising from the National Audit Office report in December 2008 related to improvements to the monitoring of condition, so that the Department for Culture Media and Sport can be satisfied that the buildings in the Estate are being maintained in line with the objective that they set for the Property Section. Various systems for recording condition have been considered to supplement the prioritised ten year plan and it is likely that the Property Section will trial the recording of two properties on software developed by Defence Estates. This web based system will record actual condition against target condition and will therefore assist in determining the backlog in essential maintenance across the Estate.

ENVIRONMENTAL

The Royal Household have undertaken a study with the Carbon Trust to review opportunities for more effective carbon management.

The Royal Household is developing its carbon management policy and anticipates registering with the Government's Carbon Reduction Commitment Scheme in 2009-10. A project to install smart meters throughout the Estate is in progress and this will facilitate efforts to reduce energy consumption further.

Combined heat and power units generate electricity in Buckingham Palace and Windsor Castle, while also providing heated water which allows the main boilers to be turned off during the summer. These units are supplemented by flat plate heat exchangers, which have been installed in place of calorifiers to provide hot water. LED lighting is being introduced alongside low energy lamps. Water from the borehole at Buckingham Palace is being used to cool the chillers which provide air conditioning to The Queen's Gallery and wine cellars, the water then being used to irrigate the garden. Waste management continues to be improved in partnership with waste companies, and in-house measures will be implemented throughout the Household to reduce waste at source.

The opportunity to obtain electricity from hydro-electric generation in Windsor continues to be explored now that a scheme has been approved by the Environment Agency.

COMMUNICATIONS AND INFORMATION

The website works planned over the next five years include website penetration testing, the Diamond Jubilee special programme, the Olympics and the Duke of Edinburgh's 90th birthday.

ROYAL TRAVEL

The Queen's Helicopter

In anticipation of the expiry of the 10 year lease on The Queen's Helicopter in January 2009, the Household supported by specialist aviation consultants, issued a tender in 2007-08 for the replacement of the helicopter. Following a competitive tender the Sikorsky Aircraft Corporation was the successful bidder and will deliver the new Helicopter in August 2009.

Royal Train

The Royal Household, supported by specialist rail consultants, issued a tender for the maintenance of the Royal Train in October 2007. As a result, D.B. Schenker Rail (UK) Limited (formerly English Welsh & Scottish Railway) assumed responsibility for maintenance of the Royal Train from August 2008 at no increase in cost. Further opportunities for increasing the cost effectiveness of the Royal Train's operations will continue to be explored with D.B. Schenker Rail (UK) Limited.

The Royal and Ministerial Air Travel Review

Although the Department for Transport had approved the acquisition of a small fixed wing aircraft to replace the service provided by 32 Squadron from 1 April 2009, the Royal Household suspended this project in October 2008 in light of current economic conditions.

In anticipation of the withdrawal of the service provided by 32 Squadron from 1 April 2009, the Royal Household managed a competitive tender for the provision of fixed wing charter services. However, as the Royal Air Force subsequently agreed to extend the service offered by 32 Squadron until 31 March 2010, the selected commercial charter company will now provide aircraft for the Royal Household when the Royal Air Force is unable to meet Royal Flying tasks due to operational and training commitments.

The Royal Household will continue to work with the Ministry of Defence and the Department for Transport to examine options for the provision of fixed wing flying from 1 April 2010 on the expiry of the current arrangements with the Royal Air Force.

Revision of the Financial Memorandum

In view of the anticipated changes in Royal Travel operations arising from the provision of fixed wing aircraft services, the planned update by the Royal Household and the Department for Transport of the Financial Memorandum and the Household's internal guidance on Royal Travel will now be completed during 2009-10.

STATEMENT ON INTERNAL CONTROLS

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

The system of internal control is based on an ongoing process designed to:

- (a) identify and evaluate the nature and extent of the risks to the achievement of the aims and objectives for operations funded from the Grants-in-aid and Civil List, set out in their five year plans; and
- (b) manage these risks efficiently, effectively and economically. For reasons of cost and practicality the system of internal control is intended to manage rather than to eliminate the risks and to give reasonable rather than absolute assurance.

The Keeper of the Privy Purse has considered the following principal systems in reviewing the effectiveness of the system of internal control for the Grants-in-aid and Civil List:

- **Control environment:** The operations funded from the Grants-in-aid and Civil List have organisational structures with clearly defined levels of responsibility and authority and appropriate operational and financial reporting procedures. The Keeper of the Privy Purse delegates responsibility for the day to day running of the Grants-in-aid and Civil List to the respective Management Group. The employees paid from the Grants-in-aid and Civil List perform their duties with reference to agreed policies covering confidentiality and security, health and safety, and codes of conduct. Operating procedures and controls are documented for key processes in comprehensive Desk Instructions.
- **Financial reporting and information systems:** There are comprehensive planning and financial reporting procedures for expenditure from the Grants-in-aid and Civil List, which include the preparation of annual budgets and five-year plans, all of which are approved by the Lord Chamberlain's Committee. For the Grants-in-aid quarterly results are reported against budget, whilst for the Civil List monthly expenditure is reported against budget. Significant variances to budget and key performance indicators are examined and appropriate action is taken where required. Forecasts are regularly updated throughout the year, taking into account performance for the year to date.

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

In his review of the effectiveness of the system of internal control, the Keeper of the Privy Purse takes account of the work of the internal auditors and managers who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The Keeper of the Privy Purse has been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Sir Alan Reid
Keeper of the Privy Purse
4th June 2009

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

THE CIVIL LIST

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

- the administration of the Civil List fully accords with the accounts directions given by the Treasury in pursuance of Section 9 of the Civil List Audit Act 1816; and
- the Civil List is applied only for the purposes set out in the Financial Memorandum between the Royal Household and the Treasury and in the Civil List Act 1972.

GRANT-IN-AID FOR PROPERTY SERVICES, ROYAL COMMUNICATIONS AND INFORMATION AND THE MAINTENANCE OF MARLBOROUGH HOUSE

Under the terms of the Memorandum of Understanding and the Financial Memorandum in respect of Property Services, Royal Communications and the Maintenance of Marlborough House, dated 28th September 2006, the Keeper of the Privy Purse is responsible for ensuring that:

- the administration of the Grant-in-aid fully accords with *Managing Public Money* and other guidance that may be notified to the Royal Household by the Department for Culture, Media and Sport; and
- the Grant-in-aid is applied only for the purposes approved by the Lord Chamberlain and the Secretary of State for Culture, Media and Sport as set out in the Memoranda of Understanding.

He is required to submit this annual report to the Lord Chamberlain and the Secretary of State for Culture, Media and Sport.

GRANT-IN-AID FOR ROYAL TRAVEL

Under the terms of the Memorandum of Understanding dated 25th March 1997 and the Financial Memorandum dated May 2002, the Keeper of the Privy Purse is responsible for ensuring that:

- the administration of the Grant-in-aid fully accords with *Managing Public Money* and other guidance that may be notified to the Royal Household by the Department for Transport; and
- the Grant-in-aid is applied only for the purposes approved by the Lord Chamberlain and the Secretary of State for Transport and set out in the Memorandum of Understanding.

He is required to submit, jointly with the Private Secretary to The Queen, this annual report to the Lord Chamberlain and Secretary of State for Transport.

GENERAL

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 Financial Memoranda, for the income and expenditure;
- the Grants-in-aid and Civil List are used economically, efficiently and effectively to secure best value for money, in accordance with propriety and regularity;
- staff paid from the Grants-in-aid or Civil List take financial considerations fully into account at all stages in framing, reaching and executing decisions in so far as the Grants-in-aid or Civil List 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 Grants-in-aid and Civil List 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 Civil List and Grants-in-aid 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 Civil List and Grants-in-aid auditors are aware of that information.

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.

Sir Alan Reid
Keeper of the Privy Purse
4th June 2009