

**The Grant-in-aid for the
Maintenance of the Occupied Royal Palaces in
England,
Royal Communications and Information,
and for the Maintenance of Marlborough House**

Annual Report 2007-08

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MAINTENANCE OF THE OCCUPIED ROYAL PALACES (“PROPERTY SERVICES”)

PERFORMANCE INDICATORS AND OPERATING RATIOS

The performance indicators and operating ratios are intended to provide a concise assessment of the way in which the Royal Household manages the Grant-in-aid in the key areas where performance can be quantified. Where percentages in the following table are preceded by + or – they are quantifying the movement in the expenditure compared with the previous year.

Year to 31st March	2008 <i>Target</i>	2008 Actual	2007 Actual
	%	%	%
Funding			
Movement in voted revenue Grant-in-aid receivable in:			
• absolute terms	–	–	-0.7
• real terms	4.0	-2.8	-6.6
Property Maintenance			
Fees and other indirect costs as a percentage of construction costs	18.5	17.0	16.2
Projects with a construction cost of £25,000 or more completed with a cost overrun of no more than:			
• 5% of the let tender amount	75	76	76
• the greater of £20,000 and 10% of the let tender amount	100	100	100
Percentage of fixed-price contracts with a construction cost of £25,000 or more let without competitive tendering	–	–	–
Telephones			
Movement in costs in real terms	–	-21.0	-9.1
Energy Consumption			
Movement in electricity costs in real terms	–	-7.3	-1.8
Movement in gas costs in real terms	–	-0.1	-6.2
Movement in water costs in real terms	–	-0.3	-6.0
Supplier Payments			
Percentage paid within:			
• 30 days	85	93	88
• 40 days	95	97	96
• 50 days of receipt of invoice	97	98	97
Average Weekly Number of AFD Activations	8	6	6
Staff Numbers	110	107	108

All 15 of the performance indicators set for 2007-08 (2006-07: 15) were met or bettered.

Adjustments to restate expenditure in real terms have been made using the inflation indices given on page 92. Explanations of the performance indicators, where required, are given below.

Fees and other indirect costs as a percentage of construction costs (or ratio)

This indicator measures the success in spending as large a proportion as feasible of the funding available for property maintenance on actual maintenance and building work and as small a proportion as feasible on related administration and fees. It is understood that the fees and other indirect costs ratio for work on listed buildings would normally be expected to be in the range of 15% to 20%. Reducing expenditure on fees may, of course, be a false economy if insufficient pre-planning and input from architects and other members of the design team means that building costs increase and/or that the quality of the work is compromised. Comparisons with industry standard rates per square metre are used wherever possible to check that fees have not been reduced at the expense of increased cost in other areas. In addition independent checks are undertaken to ensure that work undertaken is up to the high standard required. The achievement of this ratio will become increasingly difficult as the amount of funds available for Property maintenance continues to decline in real terms each year.

Percentage of projects with a construction cost of £25,000 or more (excluding VAT) completed with a cost overrun of no more than (a) 5% of the let tender amount, and (b) the greater of £20,000 and 10% of the let tender amount

Building projects in relation to historic buildings and conservation are particularly difficult to manage and costs can frequently exceed budget. By completing 75% of projects with an overrun of no more than 5% of the let tender amount and 100% of projects with an overrun of no more than the greater of £20,000 and 10% of the let tender amount, the Property Section meets demanding targets. It is also the Household's policy not to include undefined provisional sums and general contingencies in let tender amounts, which would otherwise distort the application of this performance indicator.

Average weekly number of AFD activations

This performance indicator monitors how effectively the automatic fire detection (AFD) system is managed. The average number of activations in 2007-08 for the Estate was 6 per week, compared with the benchmark of 12 per week calculated in accordance with the guidance set out in the British Standard for systems of comparable size.

INCOME AND EXPENDITURE ACCOUNT

<i>Year to 31st March</i>		2008	2007
	Note	£m	£m
Amount of Revenue Grant-in-aid voted by Parliament		15.0	15.0
Capital Grant-in-aid drawn down		0.7	0.2
Grant-in-aid drawn down		15.7	15.2
Property Maintenance			
Projects and general maintenance	2	9.0	8.7
Less: Income from facilities management charge		(1.8)	(1.8)
Supervision		1.4	1.3
		8.6	8.2
Utilities		2.2	2.4
Fire, health and safety services		1.3	1.3
Non-domestic rates		0.8	0.7
Court Post Office		0.6	0.7
Gardens		0.9	0.7
Furniture and equipment		0.6	0.6
Central administration		0.3	0.5
Information Systems ¹		0.3	0.2
Rent and other recoveries		(1.0)	(1.1)
Maintenance of commercial properties		0.7	0.3
Total net expenditure	2, 5	15.3	14.5
Net funding for fixed assets and working capital	9	0.4	0.7
		 	

Total net expenditure in 2007-08 includes approximately £1.8 million in respect of VAT (2006-07: £1.8 million).

The accounting policies are summarised on pages 72 to 74. The Income and Expenditure Account should also be read in conjunction with the Statement of Total Recognised Gains and Losses, the Balance Sheet and the Cash Flow Statement on pages 69, 70 and 71 respectively.

The results shown above relate to continuing activities.

¹ Figures for 2006-07 have been restated to show Information Systems costs separately, previously they were split between Central administration and Supervision

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

<i>Year to 31st March</i>		2008	2007
	Note	£m	£m
Net funding for fixed assets and working capital		0.4	0.7
Actuarial gain for the year	4	0.8	0.6
Total recognised gains relating to the year		1.2	1.3
		=====	=====

BALANCE SHEET

<i>As at 31st March</i>		2008	2007
		£m	£m
	Note		
Fixed assets	6	10.0	9.6
Current assets			
Debtors	7	3.1	2.9
		3.1	2.9
Creditors: amounts falling due within one year	8	(3.5)	(2.9)
Net current liabilities		(0.4)	—
Total assets less current liabilities excluding pension scheme liability		9.6	9.6
Pension scheme liability	4	(0.7)	(1.6)
Net assets		8.9	8.0
		=====	=====
Funds contributed by or (required from) the Department for Culture, Media and Sport			
Fixed asset reserve		10.0	9.6
Pension scheme deficit	4	(0.7)	(1.6)
Required to meet net current liabilities		(0.4)	—
	9	8.9	8.0
		=====	=====

Sir Alan Reid

Keeper of the Privy Purse

5th June 2008

CASH FLOW STATEMENT

<i>Year to 31st March</i>	2008	2008	2007	2007
	£m	£m	£m	£m
Reconciliation of total net expenditure to Grant-in-aid				
Total net expenditure		(15.3)		(14.5)
Interest income	(0.1)		(0.1)	
Depreciation charges	0.4		0.4	
Increase in debtors	(0.2)		(0.6)	
Increase in creditors	0.5		–	
Excess of pension scheme contributions over service cost	(0.1)		–	
	0.5		(0.3)	
Net cash outflow from activities	(14.8)		(14.8)	
Interest received	0.1		0.1	
Capital expenditure – fixed assets acquired	(1.1)		(0.7)	
Net cash outflow before financing	(15.8)		(15.4)	
Grant-in-aid drawn down	15.7		15.2	
Decrease in cash	(0.1)		(0.2)	
Reconciliation of cash balances				
	2008		2007	
	£m		£m	
Cash at bank as at start of year	(0.7)		(0.5)	
Net decrease in cash	(0.1)		(0.2)	
Cash at bank as at 31st March	(0.8)		(0.7)	

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 have been prepared in accordance with UK Generally Accepted Accounting Practice and under the historical cost accounting rules.

b) Income

Grant-in-aid from the Department for Culture, Media and Sport is taken to the Income and Expenditure Account in the year it is received.

All other income is accounted for on a receivable basis.

c) Income from facilities management charge

Amounts due from the Royal Collection Trust to the Grant-in-aid in respect of services provided in connection with admitting the public to Windsor Castle are recognised on an receivable basis.

d) Pensions costs

The Household participates in two pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Grant-in-aid. Contributions to the schemes are charged to the Income and Expenditure Account to reflect the cost of benefits accruing to members so as to spread pension costs over employees' working lives with the Household. One of these pension schemes, managed by the Government, is not a funded scheme. As permitted by FRS 17: Retirement Benefits, this scheme is treated as a defined contribution scheme by the Grant-in-aid and the full cost of contributions made in the year is reflected in the Income and Expenditure Account.

However, FRS 17: Retirement Benefits is applicable to the second scheme, the Royal Households Group Pension Scheme, and accordingly the Income and Expenditure Account 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 recognised in the pension scheme for the year (shown within the statement of total recognised gains and losses) and the balance sheet includes the deficit 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 Household also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Grant-in-aid in an independently administered fund. The amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the year.

Further details of the pension schemes are provided in note 4.

e) Leases

Operating lease rentals are charged to the Income and Expenditure Account on a straight-line basis over the period of the lease.

f) Cost of capital

The Treasury requires Non-Departmental Public Bodies (NDPB) to make a notional charge in their accounts for the cost of capital employed in their activities. In view of the funding arrangements for the Royal Household, which is not an NDPB, together with the fact that the Palaces are held by The Queen in trust for the nation, it is not considered appropriate to include such a charge in the accounts.

g) Fixed assets

The Estate is not attributed any value in the Balance Sheet as the land and buildings are held by The Queen in trust for the nation and cannot be sold. The Treasury requires that certain fixed assets should be revalued on a modified historical cost basis. In view of the nature of the fixed assets, it is not considered appropriate to use this basis and historical cost has been applied.

Net expenditure over £5,000 on improvements to the Estate is capitalised, except where the improvements are incidental to general repair and refurbishment work; costs capitalised include related fees and VAT.

Fixed assets are depreciated on a straight-line basis at the following rates:

• Automatic fire detection (AFD)	10 years
• Fire compartmentation	30 years
• General building improvements	10 or 30 years
• Refurbishments (commercial lettings only)	7 years
• Lifts*	20 years
• Water mains	30 years
• Information technology equipment	3 years
• Small Plant & Tools*	4 years
• Electrical Plant*	10 years
• Telephone switches (grouped with IT equipment)	5 years

* All grouped under the heading of “Plant & Lifts” in the table on page 84.

All assets are subject to a half-year’s depreciation charge in the year of acquisition, with the exception of plant, information technology and telephone equipment, for which depreciation commences in the month following purchase.

Depreciation on fixed assets reinstated in 2000-01 (as set out in note 1(j)) has been charged directly to the reserve which was established at that time.

h) Stock

Stock has not been included in the Balance Sheet on the grounds of materiality.

i) Bank overdraft

The Grant-in-aid did not have an overdraft with, or any borrowings from, its banker. The disclosed bank overdraft at 31st March 2008 and 2007 arose from the notional allocation of cash between the three parts of the Grant-in-aid.

j) Reserves

A fixed asset reserve was established in 2000-01 when, as a result of applying the accruals basis in accordance with the requirements of Government Resource Accounting, the past cost of fixed assets written off in the year of expenditure was reinstated on the balance sheet. The net annual movement is the difference between fixed assets acquired and depreciation.

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

Amount required to meet net current liabilities represents the net liability at the year end payable to third party creditors, net of amounts receivable. This will be settled from future Grant-in-aid funding.

2. SEGMENTAL ANALYSIS

<i>Year to 31st March</i>	Total costs		Maintenance projects > £3,500	
	2008	2007	2008	2007
	£m	£m	£m	£m
Buckingham Palace	5.9	6.4	1.7	2.5
Buckingham Palace Mews and Gardens	2.1	1.8	0.4	0.3
St James's Palace	1.5	1.5	0.5	0.5
Clarence House and Marlborough House Mews	0.8	0.3	0.5	0.1
Kensington Palace	0.7	(0.1)	0.3	0.1
Hampton Court Mews and Paddocks	0.3	0.3	0.1	0.1
Windsor Castle	3.7	3.6	1.7	1.4
Windsor Castle Royal Mews	0.7	0.5	0.4	0.3
Windsor Home and Great Parks	0.7	1.0	0.1	0.4
Central costs	0.7	1.0	—	—
	17.1	16.3	5.7	5.7
Facilities management charge	(1.8)	(1.8)	—	—
	15.3	14.5	5.7	5.7
	=====	=====	=====	=====

Maintenance projects expenditure with a cost of £3,500 or more, analysed by category of expenditure

<i>Year to 31st March</i>	2008	2007
	£m	£m
Energy conservation	0.3	0.3
Fire precaution	0.2	0.1
Health and safety	0.7	0.7
Housing	0.7	0.6
Offices and workshops	0.3	0.4
General maintenance	3.5	3.6
	5.7	5.7
	=====	=====

Because of the nature of other expenditure, it is not feasible to split total costs between these types of expenditure, so this information is not supplied.

The cost of maintenance projects with a cost of £3,500 or more reconciles with the total maintenance costs as follows:

<i>Year to 31st March</i>	2008		2007	
	Capital £m	Revenue £m	Capital £m	Revenue £m
Maintenance projects with a cost of £3,500 or more:				
• Construction	0.3	5.3	0.1	5.4
• Fees	—	0.4	0.2	0.3
	0.3	5.7	0.3	5.7
Less: transfers to fixed assets	(0.3)	(0.6)	(0.3)	(0.4)
Add: depreciation	—	0.2	—	0.1
	—	5.3	—	5.4
General maintenance	—	3.7	—	3.3
Total projects and general maintenance	—	9.0	—	8.7
	—	9.0	—	8.7

3. STAFF NUMBERS AND COSTS

Establishment

The number of staff paid from the Grant-in-aid was as set out below.

	Number of staff	
	2008	2007
Administration, Accounting and Telephone Operators	15	12
Property Maintenance Central Unit	3	3
Buckingham Palace and St James's Palace Maintenance Office	33	36
Kensington Palace, Hampton Court and Windsor Castle Maintenance Office	19	20
Fire, Health and Safety Services	22	22
Craftsmen	15	15
	107	108

Where staff work part-time or have part of their salary charged to the Civil List or the Royal Travel Grant-in-aid, they are recorded according to the proportion of their time devoted to, and paid for by, the Property Services Grant-in-aid.

Payroll Costs

<i>Year to 31st March</i>	2008	2007
	£m	£m
Salaries	3.0	2.8
Less: housing abatements and charges	(0.2)	(0.2)
Overtime	0.2	0.3
National Insurance	0.3	0.3
Pension contributions	0.7	0.7
	<hr/>	<hr/>
	4.0	3.9
	<hr/>	<hr/>

Housing abatements and charges are deductions from salaries in respect of the provision of residential accommodation. The majority of the paid overtime arises from attendance at evening receptions and weekend working, for example when the Buckingham Palace State Apartments are open to the public, together with cover for leave and sickness absences for 24 hour shift workers (telephone operators and fire surveillance officers). Of the above costs £0.3 million (2006-07: £0.3 million) was recharged to external and other funding sources.

Payroll costs are included under the following headings within the Income and Expenditure Account.

<i>Year to 31st March</i>	2008	2007
	£m	£m
Projects and general maintenance	0.5	0.6
Supervision	1.2	1.0
Utilities	0.3	0.3
Fire, health and safety services	0.9	0.9
Gardens	0.4	0.4
Furniture and equipment	0.5	0.5
Central administration	0.2	0.2
	<hr/>	<hr/>
	4.0	3.9
	<hr/>	<hr/>

4. PENSION ARRANGEMENTS

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

- (a) a scheme managed by the Government analogous 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 from 1st 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

Employees who transferred from the Department of the Environment or the Property Services Agency (PSA) when the Royal Household's Property Section was established are members of this scheme. Pension contributions are paid directly to the Consolidated Fund and, in turn, pension benefits are paid directly from the Consolidated Fund on a defined benefit basis. The contribution rate during the year was 19.7% of pensionable pay (2006-07: 19.7%), reflecting a valuation by the Government Actuary's Department. The contribution rates reflect the cost of pension benefits as they are carried by employees.

The pension scheme, managed by the Government, is not a funded scheme. As permitted by FRS 17: Retirement Benefits, this scheme will continue to be accounted for as if it were a defined contribution scheme.

Royal Households Group Pension Scheme

All full-time permanent employees who joined before 31st 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 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 costs will increase as the members approach retirement. The most recent completed valuation was as at 1st January 2006. 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 1.7% per annum post-retirement and 3.2% per annum pre-retirement, that real salary increases would average 1.5% 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 £24.5 million and that this value of the assets was sufficient to cover 69% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Following this valuation, the employer's contribution rate in respect of staff employed by Property Section was set at 27.6% from 1st January 2007 (previously 22.8%), plus an index-linked annual payment of £126,000 (previously £98,000 index-linked annual payment from 1st January 2004 shared by both the Property Services and Royal Travel Grants-in-aid) and the benefit accrual rate was reduced from 1/60 to 1/70 for each year of

service from 1st April 2007. It is believed that these measures will be sufficient to eliminate the Property Section's share of the past service deficit of £1.6 million over fifteen 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 1st January 2006, updated by an independent qualified actuary, Hewitt, to take account of the requirements of FRS 17: Retirement Benefits in order to assess the liabilities in respect of the Property Section of the scheme at 31st March 2008. Scheme assets in respect of the Property Section of the scheme are stated at their market values at 31st March 2008.

	2008	2007	2006
	(pa)	(pa)	(pa)
Actuarial assumptions adopted as at 31st March			
Discount rate	6.9%	5.4%	4.9%
Rate of general long-term increase in salaries	5.2%	4.7%	4.5%
Rate of price inflation	3.7%	3.2%	3.0%
Rate of increase to pensions in payment (pre-1993 service)	5.0%	5.0%	5.0%
Rate of increase to pensions in payment (post-1993 service)	3.6%	3.2%	2.9%

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 currently aged 65 will live on average for a further 21.6 years if they are male and for a further 23.7 years if they are female. For a member who retires in 2025 at age 65 the assumptions are that they will live on average for a further 23.4 years after retirement if they are male and for a further 24.8 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 assumed long-term rate of return on each asset class is set out within this note. 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 as at 31st March 2008.

	2008	2007	2006
Average annual expected long-term rate of return/total fair value of assets	7.04%	7.07%	6.66%

	Value as at 31st March		
	2008	2007	2006
	£m	£m	£m
Fair value of scheme assets	5.6	5.6	4.9
Present value of funded defined benefit obligations	(6.3)	(7.2)	(7.1)
Net pension liability recognised on the balance sheet	(0.7)	(1.6)	(2.2)

There is therefore a net pension liability of £0.7 million as at 31st March 2008 (£1.6 million as at 31st March 2007). The amount of this net pension liability has a consequential effect on reserves.

Analysis of amounts charged against income and expenditure

Year to 31st March	2007-08	2006-07
	£m	£m
Current service cost	(0.4)	(0.4)
Expected return on scheme assets	0.4	0.3
Interest on pension scheme liabilities	(0.4)	(0.3)
Expense recognised in Income and Expenditure Account	(0.4)	(0.4)

Changes to the present value of the defined benefit obligations during the year are as follows:

	2007-08	2006-07
	£m	£m
Defined benefit obligations as at 1st April	7.2	7.1
Movement in year:		
Current service cost	0.4	0.4
Interest cost	0.4	0.3
Actuarial gains on scheme liabilities	(1.5)	(0.6)
Net benefits paid out	(0.2)	—
Defined benefit obligations as at 31st March	6.3	7.2

Changes to the fair value of scheme assets during the year are as follows:

	2007-08	2006-07
	£m	£m
Fair value of scheme assets as at 1st April	5.6	4.9
Movement in year:		
Expected return on scheme assets	0.4	0.3
Contributions by the employer	0.5	0.4
Actuarial losses on scheme assets	(0.7)	–
Net benefits paid out	(0.2)	–
Fair value of scheme assets as at 31st March	<u>5.6</u>	<u>5.6</u>

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

	2007-08	2006-07
	£m	£m
Deficit as at 1st April	(1.6)	(2.2)
Movement in year:		
Current service cost	(0.4)	(0.4)
Contributions	0.5	0.4
Actuarial gains	0.8	0.6
Deficit as at 31st March	<u>(0.7)</u>	<u>(1.6)</u>

The actual return on scheme assets comprises:

Year to 31st March	2008	2007
	£m	£m
Expected return on scheme assets	0.4	0.3
Actuarial losses on scheme assets	(0.7)	–
Actual return on scheme assets	<u>(0.3)</u>	<u>0.3</u>

The amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL) were as follows:

Year to 31st March	2008	2007
	£m	£m
Total actuarial gains	0.8	0.6
Total gains in STRGL	0.8	0.6
Cumulative amount of gains recognised in STRGL	1.4	0.6

The history of assets values, defined benefit obligations and the deficit in the scheme is as follows:

	2008	2007	2006
	£m	£m	£m
Fair value of scheme assets	5.6	5.6	4.9
Defined benefit obligations	(6.3)	(7.2)	(7.1)
Deficit in scheme	(0.7)	(1.6)	(2.2)
	=====	=====	=====

The history of experience gains and losses is as follows:

	2008	2007	2006
	£m	£m	£m
Experience losses on scheme assets	(0.7)	—	—
Experience gains on scheme liabilities	—	0.1	—

Estimate of income and expenditure charge for the coming year:

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

Year to 31st March	2009
	£m
Current service cost	0.3
Expected return on scheme assets	(0.4)
Interest on pension scheme liabilities	0.4
Total estimated pension expense	0.3
	=====

Royal Household Defined Contribution (Stakeholder) Pension Scheme

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

5. TOTAL NET EXPENDITURE

Total net expenditure is stated after (crediting)/charging:

<i>Year to 31st March</i>	2008	2007
	£m	£m
Interest	(0.1)	(0.1)
Depreciation	0.4	0.4

Since July 2006 the Grant-in-aid has been paid monthly in advance. Prior to this date it was paid quarterly in advance. The Auditors' remuneration for the audit was £51,000 (2006-07: £65,000). There were no additional fees paid to the auditors during 2007-08 (2006-07: nil).

6. FIXED ASSETS

Asset category	AFD	Fire		Plant		Water mains	IT	Total
		comp	Projects	Refurb	& lifts			
	£m							
Cost								
At 1st April 2007	7.0	6.7	4.5	1.1	1.8	0.2	0.8	22.1
Additions	—	—	0.3	—	0.5	—	0.3	1.1
Disposals	—	—	—	—	—	—	—	—
At 31st March 2008	7.0	6.7	4.8	1.1	2.3	0.2	1.1	23.2
	=====							
Depreciation								
At 1st April 2007	7.0	2.1	0.9	0.9	0.8	—	0.8	12.5
Charge for the year	—	0.2	0.1	0.1	0.3	—	—	0.7
Disposals	—	—	—	—	—	—	—	—
At 31st March 2008	7.0	2.3	1.0	1.0	1.1	—	0.8	13.2
	=====							
Net book value								
At 31st March 2008	—	4.4	3.8	0.1	1.2	0.2	0.3	10.0
	=====							
At 1st April 2007	—	4.6	3.6	0.2	1.0	0.2	—	9.6
	=====							

Explanation of abbreviations used above

“Fire comp” refers to fire compartmentation. “Projects” refers to various projects in which building improvement has occurred, and “Refurb” refers to the betterment element for properties which are to be let commercially.

Projects includes £0.3 million in respect of assets in the course of construction funded from the Capital Grant being drawn. These assets will be depreciated from the date of completion.

Of the fixed asset depreciation of £0.7 million, £0.4 million has been charged to the Income and Expenditure Account and £0.3 million to the Fixed Asset Reserve.

7. DEBTORS

<i>As at 31st March</i>	2008	2007
	£m	£m
Recharges	0.3	0.2
Amounts owed by related parties (see note 11)	2.8	2.7
	3.1	2.9
	=====	=====

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

<i>As at 31st March</i>	2008 £m	2007 £m
Bank overdraft	0.8	0.7
Suppliers and accruals	2.5	2.0
Amounts owed to related parties (see note 11)	0.1	0.1
Other creditors including taxation	0.1	0.1
	<hr/>	<hr/>
	3.5	2.9
	<hr/>	<hr/>

9. RESERVES

Funds contributed by or (required from) the Department for Culture, Media and Sport

	Fixed asset reserve	For net current liabilities	Pension scheme deficit	Total
	£m	£m	£m	£m
As at 1st April 2007	9.6	–	(1.6)	8.0
Actuarial gain on Group Pension Scheme	–	–	0.8	0.8
Depreciation charged directly to fixed asset reserve	(0.3)	–	–	(0.3)
Net funding for working capital	0.7	(0.4)	0.1	0.4
As at 31st March 2008	<hr/>	<hr/>	<hr/>	<hr/>
	10.0	(0.4)	(0.7)	8.9
	<hr/>	<hr/>	<hr/>	<hr/>

10. COMMITMENTS

<i>As at 31st March</i>	2008 £m	2007 £m
Contractual commitments:		
• Contracted	1.8	2.0
• Authorised but not contracted	2.5	2.5

11. RELATED PARTY TRANSACTIONS

Material transactions during the year with other entities controlled by officials or trustees on behalf of The Queen are set out below.

	2008 £m	2007 £m	2008 £m	2007 £m
Balance due from:		Recoveries from:		
Civil List	0.1	0.1	0.1	0.1
Royal Collection Trust and Royal Collection Enterprises	2.5	2.4	3.2	2.5
Privy Purse	0.1	0.1	0.2	0.3
Other Royal Households	0.1	0.1	0.2	0.1
Balance due to:		Charged by:		
Civil List	0.1	0.1	0.7	0.7
Privy Purse	—	—	—	—

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

Recoveries from the Civil List relate to work undertaken by craftsmen employed by the Grant-in-aid. Recoveries made from the Royal Collection include the Windsor Castle facilities management charge, reimbursement of The Queen's Gallery development costs, recovery of property refurbishment and maintenance services costs, and 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 Farm Shop and staff costs for project management services. Recoveries from other Royal Households mainly relate to property maintenance.

Charges to the Grant-in-aid from the Civil List relate to management fees charged for various services provided by Civil List staff, including accounting, payroll, internal audit, personnel, catering and cleaning, and IT services. Charges from the Privy Purse relate to insurance.

None of the management group or other related parties, except as referred to above, has undertaken any material transactions with the Grant-in-aid during the year.

12. CONTINGENT LIABILITIES

The Grant-in-aid had no contingent liabilities at the year end (2006-07: nil).

FIVE YEAR INFORMATION

INCOME AND EXPENDITURE ACCOUNT

<i>Year to 31st March</i>	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Amount of Revenue Grant-in-aid voted by Parliament	15.0	15.0	15.1	15.2	15.3
Advance drawn against 2004-05 Grant	–	–	–	(0.7)	0.7
Capital Grant drawn down	0.7	0.2	–	–	–
Grant-in-aid drawn down	15.7	15.2	15.1	14.5	16.0
	15.7	15.2	15.1	14.5	16.0
Property Maintenance					
Projects with a cost of £3,500 or more:					
● construction	5.3	5.4	5.0	5.7	5.4
● fees	0.4	0.3	0.3	0.3	0.4
	5.7	5.7	5.3	6.0	5.8
Less: transfers to fixed assets	(0.6)	(0.4)	(0.4)	(0.2)	(0.1)
Add: depreciation	0.2	0.1	0.1	0.1	0.1
General maintenance	3.7	3.3	3.7	3.4	3.4
Less: Income from facilities management charge	(1.8)	(1.8)	(1.4)	(1.1)	–
Less: Visitor contribution	–	–	–	–	(0.8)
Supervision	1.4	1.3	1.3	1.1	1.3
	8.6	8.2	8.6	9.3	9.7
Utilities	2.2	2.4	2.1	2.0	1.9
Fire, health and safety services	1.3	1.3	1.2	1.1	1.1
Non-domestic rates	0.8	0.7	0.8	(0.2)	0.7
Court Post Office	0.6	0.7	0.7	0.7	0.6
Gardens	0.9	0.7	0.6	0.6	0.6
Furniture and equipment	0.6	0.6	0.5	0.5	0.5
Central administration	0.3	0.5	0.4	0.4	0.5
Information systems	0.3	0.2	0.2	0.2	0.2
Rent and other recoveries	(1.0)	(1.1)	(1.0)	(1.0)	(0.9)
Maintenance on commercial properties	0.7	0.3	0.2	0.3	0.3
Total net expenditure	15.3	14.5	14.3	13.9	15.2
	15.3	14.5	14.3	13.9	15.2
Net funding for fixed assets and working capital	0.4	0.7	0.8	0.6	0.8
	0.4	0.7	0.8	0.6	0.8

PROPERTY MAINTENANCE

Maintenance projects expenditure analysed by category of expenditure

<i>Year to 31st March</i>	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Energy conservation	0.3	0.3	0.3	0.1	0.1
Fire precautions	0.2	0.1	0.1	0.1	0.1
Health and safety	0.7	0.7	0.3	0.5	0.2
Housing	0.7	0.6	0.5	0.5	1.5
Offices and workshops	0.3	0.4	0.9	1.7	2.2
General maintenance	3.5	3.6	3.2	3.1	1.7
	5.7	5.7	5.3	6.0	5.8
	=====	=====	=====	=====	=====

The classification of expenditure into the categories shown above is on an approximate basis, with each project generally allocated to one category, rather than analysed between a number of categories, according to the main purpose of the work.

Maintenance projects expenditure analysed by location

<i>Year to 31st March</i>	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Buckingham Palace	1.7	2.5	1.6	1.6	1.5
Buckingham Palace Mews and Gardens	0.4	0.3	0.4	0.4	0.5
St James's Palace	0.5	0.5	0.6	1.5	0.2
Clarence House and Marlborough House Mews	0.5	0.1	—	0.3	2.6
Kensington Palace	0.3	0.1	0.1	0.1	0.2
Hampton Court Mews and Paddocks	0.1	0.1	0.2	0.2	0.1
Windsor Castle	1.7	1.4	1.8	0.9	0.1
Windsor Castle Royal Mews	0.4	0.3	0.3	0.5	0.1
Windsor Home and Great Parks	0.1	0.4	0.3	0.5	0.5
	5.7	5.7	5.3	6.0	5.8
	=====	=====	=====	=====	=====

ANALYSIS BY PALACE

<i>Year to 31st March</i>	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Buckingham Palace	5.9	6.4	5.9	5.2	6.1
Buckingham Palace Mews and Gardens	2.1	1.8	1.5	1.4	1.6
St James's Palace	1.5	1.5	1.5	2.2	0.8
Clarence House and Marlborough House Mews	0.8	0.3	0.3	0.6	2.7
Kensington Palace	0.7	(0.1)	(0.1)	(0.1)	0.1
Hampton Court Mews and Paddocks	0.3	0.3	0.3	0.3	0.3
Windsor Castle	3.7	3.6	3.8	3.0	2.1
Windsor Castle Royal Mews	0.7	0.5	0.5	0.4	0.3
Windsor Home and Great Parks	0.7	1.0	1.0	1.0	1.0
Central costs	0.7	1.0	1.0	1.0	1.0
	17.1	16.3	15.7	15.0	16.0
Less: Income from facilities management charge	(1.8)	(1.8)	(1.4)	(1.1)	–
Less: Visitor contribution	–	–	–	–	(0.8)
	15.3	14.5	14.3	13.9	15.2

STAFF NUMBERS AND COSTS

Establishment

<i>As at 31st March</i>	Number of staff				
	2008	2007	2006	2005	2004
Administration, Accounting and Telephone Operators	15	12	13	13	14
Property Maintenance Central Unit	3	3	3	3	3
Buckingham Palace and St James's Palace Maintenance Office	33	36	36	35	35
Kensington Palace, Hampton Court and Windsor Castle Maintenance Office	19	20	21	20	21
Fire, Health and Safety Services	22	22	22	24	24
Craftsmen	15	15	15	15	15
	107	108	110	110	112
	£107	£108	£110	£110	£112

Payroll Costs

<i>Year to 31st March</i>	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m
Salaries	3.0	2.8	2.8	2.6	2.8
Less: housing abatements and charges	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)
Overtime	0.2	0.3	0.3	0.3	0.2
National Insurance	0.3	0.3	0.3	0.2	0.2
Pension contributions	0.7	0.7	0.6	0.6	0.6
	4.0	3.9	3.8	3.6	3.7
	£4.0	£3.9	£3.8	£3.6	£3.7

PERFORMANCE INDICATORS AND OPERATING RATIOS

<i>Year to 31st March</i>	2008 %	2007 %	2006 %	2005 %	2004 %
Funding					
Movement in voted revenue Grant-in-aid in:					
• absolute terms	—	-0.7	-0.7	-0.7	-0.6
• real terms	-2.8	-6.6	-4.1	-8.4	-4.5
Property Maintenance					
Fees and other indirect costs as a percentage of construction costs	17.0	16.2	15.3	14.6	15.4
Projects with a construction cost of £25,000 or more completed with a cost overrun of no more than:					
• 5% of the let tender amount	76	76	80	78	71
• the greater of £20,000 and 10% of the let tender amount	100	100	98	100	95
Percentage of fixed price contracts with construction cost of £25,000 or more let without competitive tendering	—	—	—	—	7.7
Telephones					
Movement in costs in real terms ¹	-21.0	-9.1	+2.6	-5.3	—
Energy Consumption					
Movement in electricity costs in real terms	-7.3	-1.8	-1.8	-11.0	-6.8
Movement in gas costs in real terms	-0.1	-6.2	-6.7	-2.6	-5.4
Movement in water costs in real terms	-0.3	-6.0	+4.1	-4.3	-4.0
Supplier Payments					
Percentage paid within:					
• 30 days	93	88	94	87	83
• 40 days	97	96	97	95	94
• 50 days of receipt of invoice	98	97	98	97	97
Average Weekly No. of AFD activations					
Staff Numbers	107	108	110	110	112

Adjustments have been made to restate expenditure in real terms using the inflation indices given on page 92.

¹ Ratios have been restated to reflect restatement of salary indices on following page

INFLATION INDICES

		2007-08	2006-07	2005-06	2004-05	2003-04
		%	%	%	%	%
Inflation index						
Retail price	(a)	3.5	3.9	2.1	2.5	2.1
Tender price ¹	(b)	5.0	3.6	0.4	13.1	4.2
Building cost	(b)	4.6	5.8	5.0	7.5	4.4
Pay ²	(c)	5.2	4.4	4.7	4.0	4.7
Electricity	(d)	-11.0	48.3	17.4	41.8	20.6
Gas	(d)	-26.0	28.4	20.2	25.3	4.5
Water	(d)	5.7	4.5	20.6	2.3	1.2
Telephones	(d)	0.0	0.0	1.7	3.0	0.0

Sources

- (a) Consumer Prices and General Inflation Branch of the Office of National Statistics.
- (b) Building Cost Information Service of the Royal Institution of Chartered Surveyors, Quarterly Review of Building Prices.
- (c) Royal Household personnel database.
- (d) The indices are in-house estimates based on information from suppliers. This is applied because the consumer price index and bulk prices have very different inflation profiles.

When restating expenditure and income in real terms the tender price index is applied to all Property Maintenance expenditure except for General Maintenance and Supervision. The building cost index is applied to the external contractor element of General Maintenance expenditure. The pay index is applied to payroll costs, the relevant utility indices to utilities, the telephones index to non-pay telephones expenditure and the retail price index to all other income and expenditure.

¹ Because an accurate figure for the year to 31st March is not available by the time the annual report is published, the figure for the previous calendar year is used.

² Prior year figures have been restated to include an average increase for performance related pay

ROYAL COMMUNICATIONS AND INFORMATION

INCOME AND EXPENDITURE ACCOUNT

<i>Year to 31st March</i>		2008	2007
	Note	£m	£m
Amount of Grant-in-aid voted by Parliament		<u>0.5</u>	<u>0.5</u>
Grant-in-aid drawn down		<u>0.5</u>	<u>0.5</u>
 Royal Visits		<u>0.1</u>	<u>0.1</u>
 General Communications			
Press Office salaries		0.2	0.2
Web Site		0.1	0.1
Other		0.1	0.1
		<u>0.4</u>	<u>0.4</u>
Total net expenditure	2	<u>0.5</u>	<u>0.5</u>
 Net funding for working capital		<u>—</u>	<u>—</u>

BALANCE SHEET

<i>As at 31st March</i>		2008	2007
		£m	£m
Current assets			
Cash at bank		0.1	0.1
Creditors: amounts falling due within one year			
Suppliers		(0.1)	(0.1)
		(0.1)	(0.1)
Net assets		<u>—</u>	<u>—</u>
 Funds contributed by the Department for Culture, Media and Sport		<u>—</u>	<u>—</u>

CASHFLOW STATEMENT

	2008 £m	2007 £m
Reconciliation of total net expenditure to Grant-in-aid		
Total net expenditure	(0.5)	(0.5)
Net cash outflow from activities and before financing	(0.5)	(0.5)
Grant-in-aid drawn down	0.5	0.5
Increase in cash	—	—
	—	—

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 have been prepared in accordance with UK Generally Accepted Accounting Practice and under the historical cost accounting rules.

b) Pensions costs

The Household operates the Royal Households Group Pension Scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Grant-in-aid. Contributions to the scheme are charged to the Income and Expenditure Account so as to spread the cost of pensions over employees' working lives with the Household. Employer's pension contributions are recognised in the Income and Expenditure Account on an accruals basis. Further details relating to the pensions schemes are provided in notes 1 and 4 of the Property Services accounts.

2. TOTAL NET EXPENDITURE

The Auditors' remuneration for the audit was £2,000 (2006-07: £2,000). During 2006-07 and 2007-08 no other services were provided by the Auditors except for the audit.

3. PENSION ARRANGEMENTS

Three members of staff are directly employed by the Grant-in-aid. Details of the pension schemes operating for employees of the Royal Household are provided in note 4 to the Property Services accounts (page 77).

4. RELATED PARTY TRANSACTIONS

	2008 £m	2007 £m	2008 £m	2007 £m
	Balance due to:		Charged by:	
Civil List	—	—	0.1	0.1
Other Royal Households	—	—	0.1	0.1

The Civil List and other Royal Households are regarded as related parties. Material transactions with these related parties during the year are summarised above.

Charges to the Grant-in-aid are mainly from the Civil List and relate to management fees charged for various services provided by Civil List staff including accounting, payroll, internal audit, personnel, catering and cleaning and IT and information systems services.

Charges to the Grant-in-aid from other Royal Households relate to payments to The Prince of Wales's office to cover costs in respect of The Prince of Wales's royal function and engagements.

MARLBOROUGH HOUSE

INCOME AND EXPENDITURE ACCOUNT

<i>Year to 31st March</i>	Note	2008 £m	2007 £m
Amount of Grant-in-aid voted by Parliament		0.6	0.6
Grant-in-aid drawn down		0.6	0.6
Property Maintenance			
Fees and construction		0.2	0.1
Security			
Custody Guards		0.3	0.3
Commonwealth Secretariat			
General maintenance		0.2	0.2
Recovered from Commonwealth Secretariat		(0.2)	(0.2)
		—	—
Total net expenditure		0.5	0.4
Net funding for working capital	2	0.1	0.2

BALANCE SHEET

<i>As at 31st March</i>	Note	2008 £m	2007 £m
Current assets			
Cash		0.8	0.7
Debtors		0.1	0.1
		0.9	0.8
Creditors: amounts falling due within one year			
Suppliers		(0.1)	(0.1)
Net assets		0.8	0.7
Funds contributed by the Department for Culture, Media and Sport	2	0.8	0.7

CASH FLOW STATEMENT

<i>Year to 31st March</i>	2008 £m	2007 £m
Reconciliation of total net expenditure to Grant-in-aid		
Total net expenditure	(0.5)	(0.4)
Net cash outflow from activities and before financing	(0.5)	(0.4)
Grant-in-aid drawn down	0.6	0.6
Increase in cash	0.1	0.2

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.

Basis of preparation

The accounts have been prepared in accordance with UK Generally Accepted Accounting Practice and under the historical cost accounting rules.

2. RESERVES

Funds contributed by the Department for Culture, Media and Sport	£m
As at 1st April 2007	0.7
Net funding for working capital	0.1
As at 31st March 2008	0.8

3. COMMITMENTS

<i>As at 31st March</i>	2008 £m	2007 £m
Contractual commitments:		
• Contracted	—	—
• Authorised but not contracted	0.3	0.2

REPORT OF KPMG LLP TO THE LORD CHAMBERLAIN

We have audited the accounts of the Grant-in-aid for the maintenance of the Occupied Royal Palaces, Royal Communications and Information and the Maintenance of Marlborough House (“the Grant-in-aid”) which comprises the Income and Expenditure Account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. These accounts have been prepared using the accounting policies set out on pages 72 to 74, 94 and 97 respectively.

Our report is designed to meet the agreed requirements of the Lord Chamberlain determined by the Lord Chamberlain at the time. Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Lord Chamberlain for any purpose or in any context. Any party other than the Lord Chamberlain who obtains our report or a copy and chooses to rely on our report (or any part of it) will do so at their own risk. To the fullest extent permitted by law KPMG LLP will accept no responsibility or liability in respect of our work to any other party.

Respective responsibilities of the Keeper of the Privy Purse and KPMG LLP

The Keeper of the Privy Purse is responsible for preparing the accounts for each financial year, which includes an account of the stewardship of the Grant-in-aid, in a form and content approved by the Department for Culture, Media and Sport. The Keeper of the Privy Purse is also responsible for ensuring the regularity of financial transactions and for the preparation of the other contents of the Annual Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the accounts give a true and fair view and have been properly prepared on the stated basis. We also report to you whether in all material respects the Grant-in-aid has been expended only for the purposes described in the Memorandum of Understanding. We also report to you whether in our opinion the information given in the Annual Report is consistent with the accounts. The information given in the Annual Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Annual Report.

In addition we report to you if, in our opinion, the Royal Household has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and financial regularity of financial transactions included within the accounts. It also includes an assessment of the significant estimates and judgements made by the Keeper of the Privy Purse in preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Grant-in-aid and are consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, where caused by fraud or other irregularity or error and that in all material respects the Grant-in-aid has been expended only for the purposes described in the Memorandum of Understandings. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the accounts.

Opinion

In our opinion:

- the accounts give a true and fair view in accordance with UK GAAP of the state of affairs of the Grant-in-aid at 31st March 2008 and the total surplus for the year then ended;
- the information in the Annual Report is consistent with the accounts; and
- in all material respects, the Grant-in-aid has been expended only for the purposes described in the Memorandum of Understandings and the financial transactions conform to the authorities which govern them.

KPMG LLP
Chartered Accountants

London
5th June 2008

