House of Commons

Committee of Public Accounts

The Sovereign Grant

Thirty-ninth Report of Session 2013–14

Report, together with formal minutes, oral and written evidence

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Committee of Public Accounts

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Committee staff

The current staff of the Committee is Sarah Petit (Clerk), Claire Cozens (Committee Specialist), James McQuade (Senior Committee Assistant), Ian Blair and Yvonne Platt (Committee Assistants) and Janet Coull Trisic (Media Officer).

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Summary

Putting the finances of the Royal Household on a stable and sustainable basis (that encourages value for money) is essential to support the work of The Queen and Her Household. Our enquiries focussed on the actions of officials to put the Household's finances on this basis. We welcome the improvements introduced by the Sovereign Grant Act (the Act), which have enhanced the transparency and scrutiny of the Royal Household's (the Household's) finances, and brought audit and accountability arrangements in line with those in place for other public funds. We would like to see further action on both increasing income and reducing costs. It is not clear to us that the Treasury is sufficiently challenging in its scrutiny of the Household's financial affairs, or that the new funding arrangements sufficiently incentivise the Household to find greater efficiency savings. We are also concerned that the Household has reduced its balances to such an extent that it could be unable to cover its expenditure on any unforeseen events that might affect The Queen's programme. It needs to get a much firmer grip on how it plans to address its backlog of property maintenance.

Conclusions and recommendations

1. On 1 April 2012, the Sovereign Grant (the Grant) replaced the Civil List and the three Grants-in-Aid. The purpose of the Grant is to provide resources for the Household to support The Queen's programme of official duties. The Grant covers the staffing costs of the Household, maintaining the Royal palaces, and the costs of Royal travel. The Treasury is responsible for monitoring whether the Household uses the Grant in accordance with a Framework Agreement between the Treasury and the Household. The Grant was £31 million in 2012-13 and is set to rise to £36.1 million in 2013-14 and to £37.9 million in 2014-15. In 2015-16, the Royal Trustees will carry out their first review of the funding formula for the Grant.

2. **The Treasury is responsible for effective scrutiny of the Household's financial planning and management.** The Treasury's oversight of the Household's activities relating to the Grant is defined in a Framework Agreement. The Treasury is responsible for monitoring whether the Household uses the Grant in line with the Framework Agreement. The Agreement requires the Household to submit an annual Sovereign Grant Budget for the forthcoming year to the Treasury for approval. The Treasury discusses with the Household progress against the budget in the course of the year. The Household has given the Treasury a three-year plan of spending on maintenance of the estate. However, the Treasury did not require the Household to submit an estimate of the total repair costs to the Royal estate to bring these back to an acceptable condition. The Household has key challenges ahead relating to financial planning and management; including the options for Royal travel once the Royal train is taken out of service, and the Household's strategy for protecting historic properties from further damage and deterioration.

   Recommendation: ***The Treasury should be more actively involved in reviewing the Household's financial planning and management. It could draw on a full range of cross-government and property experience in its review, to offer advice on the key challenges facing the Household ahead on options for Royal travel and protecting the properties in the Royal estate.***

3. The Grant's funding formula provides the Household with certainty for its planning and budgeting, but does not give it clear incentives to find efficiencies. The Grant is calculated as the greater of the funding received in the previous year or 15% of the Crown Estate's net surplus two years prior. This method provides certainty through a guaranteed minimum level of funding and gives the Household the opportunity to plan and set budgets over a longer-term. However, the Treasury should continue to ensure that the Household seeks and secures greater financial efficiencies.

   Recommendation: ***The Household should ensure that it employs effective longer-term financial management and planning processes for managing the Grant, and that potential efficiencies in Grant expenditure are identified. In their 2015-16 review of the funding mechanism, the Royal Trustees should also have regard to the need to drive efficiencies in the Household's support to the Monarch.***

4. **There is scope for the Household to generate more income and reduce its costs further.** The Household set out an income generation strategy in 2009, and it subsequently increased its income to £11.6 million in 2012-13, compared to £6.7 million in 2007-08. However it could do more. Since 2007-08, the Household has cut its net costs by 16% in real terms; of this 11% was achieved by increasing income, and just 5% by reducing expenditure. We suggest that more could be done to reduce expenditure. In recent years, public sector organisations have managed to reduce spending, while being expected to maintain or improve the services they provide. Since 2010-11, the Household has kept any pay rises to staff below the increase in the annual cost of living. In 2012-13, it awarded a 2% increase in basic pay, but it also awarded an increase of £7,000 to the annual pay of one member of the Lord Chamberlain's Committee.

   Recommendation: ***The Household should ensure it has sufficient commercial expertise in place, both to maximise opportunities for generating income and to reduce costs, with a view to supporting The Queen's programme at lower net cost, providing better value.***

5. **The Household needs to do more to safeguard nationally important heritage properties.** When assessed at 31 March 2012, 39% of the Royal estate was below what the Household deemed to be an acceptable condition. The current position is likely to be worse, with some properties in a dangerous or deteriorating condition. Since 2007-08, the Household has deferred important property maintenance and kept spending on property broadly static, in line with the Grant-in-Aid funding it received. We note the Household has not even costed the repair works needed to bring the estate back to an acceptable condition. It had taken the view that there was no point in doing so due to the uncertainty of Grant-in-Aid funding. It now intends to re-introduce its 10-year maintenance plan, drawing on the greater certainty of Grant funding.

   Recommendation: ***The Household should make swift progress on updating its property maintenance plan, including an estimate of the cost of repairs needed to bring the estate back to target condition, and clear prioritisation of the work required.***

6. **The Household has left its Reserve Fund at a historically low level of only £1 million.** In 2012-13, the Household drew on its reserve funds with gross expenditure of £44.9 million compared to income of £42.6 million (£31 million Grant plus £11.6 million other income). As a result, the Household drew down £2.3 million from its £3.3 million Reserve Fund, leaving a balance of only £1.0 million at 31 March 2013—or 2.2% of gross annual expenditure compared to 7.7% at 31 March 2012.

   Recommendation: ***The Household should rebuild a sufficient level of contingency in its Reserve Fund to cover unforeseen demands on The Queen's programme.***

1 Financial management

1. From 1 April 2012, financial support to the Sovereign has been consolidated into the Sovereign Grant (the Grant). The Grant consolidated the Civil List (to meet official expenses of the Royal Household), and Grants-in-Aid (to meet the cost of maintenance of the occupied Royal palaces, Royal communications and information, and Royal travel). The Sovereign Grant Act 2011 (the Act) set the initial Grant for 2012-13 at £31 million. The Grant is set to rise to £36.1 million in 2013-14 and to £37.9 million in 2014-15. In June 2013, the Royal Household (the Household) published the first Sovereign Grant and Sovereign Grant Reserve Accounts covering 2012-13. On the basis of a Memorandum from the Comptroller and Auditor General, we took evidence from the Household on the Grant.[1]

2. The Act has strengthened accountability and scrutiny of the Household's spending on The Queen's official business. The Comptroller and Auditor General is the statutory auditor of the Sovereign Grant and Sovereign Grant Reserve Accounts which are laid before Parliament. We welcome the greater transparency this has given, and the opportunity to examine the Grant's accounts and the Household's financial management. Previously, arrangements for scrutiny of the Royal finances were constrained by being able to examine only the separate Grants-in-Aid.[2]

3. In 2012-13, the Household's gross expenditure was £44.9 million. It generated income of £11.6 million, giving a net expenditure of £33.3 million, which the £31 million Grant was insufficient to cover.[3] The Household drew down £2.3 million from the £3.3 million Reserve Fund to cover the excess of net expenditure above the Grant. The Household told us it considered the Grant was insufficient to meet The Queen's programme for 2012-13. It considered that it would have required a cut in the levels of activity and support during The Queen's Diamond Jubilee year to live within this figure. For 2012-13, the Household had initially estimated its net expenditure would be £32.5 million, and it had planned to dig into the Reserve Fund to pay for the increased level of activity within The Queen's programme.[4]

4. The Household's use of £2.3 million left only £1 million in the Reserve Fund at 31 March 2013, which represents just 2.2% of its gross expenditure in 2012-13.[5] This contrasts with the position at 31 March 2012, when the Reserve Fund held £3.3 million, representing 7.7% of its gross expenditure of £43.1 million in 2011-12.[6] The Household agreed that it would like a larger Reserve Fund. Over the longer-term, it plans to rebuild the Reserve Fund up to about 5% of the annual level of the Grant. This would have been a Reserve Fund of around

1 *'The Royal Household: The Sovereign Grant'*, Memorandum, Comptroller and Auditor General, HC 722, 2013-14, 10 October 2013

2 Qq 1-2

3 Comptroller and Auditor General's Memorandum, Appendix One Figure 12

4 Qq 5, 10

5 Comptroller and Auditor General's Memorandum, para 10 and Figure 12

6 Comptroller and Auditor General's Memorandum, Figure 12

£1.5 million in 2012-13. But the Household intends to prioritise tackling its backlog of maintenance work ahead of building up its Reserve Fund.[7]

5. The funding formula for the Grant in the Act is the greater of the funding received in the previous year or 15% of the Crown Estate's net surplus two years prior. Given this formula, the Grant will increase to £36.1 million in 2013-14 and £37.9 million in 2014-15.[8] In 2015-16, the Royal Trustees will carry out their first review of the funding formula for the Grant. The Household considered that before the introduction of the Grant, it had considerable uncertainty over the level of funding it would have available in future years.[9] It told us that the security and certainty of Grant funding has enabled a significant improvement to how it works. Instead of separate Grant-in-Aid amounts to be spent on maintenance of the Royal palaces, on communications and information and on travel, the single Grant allowed the Household scope to prioritise how it spent the money.[10]

6. The Household told us it had achieved a large number of efficiency savings.[11] Since 2007-08, the Household has cut its net expenditure by 16% in real-terms. However, 11% of this was achieved by increasing income and just 5% by reducing gross expenditure.[12] Since 2010-11, the Household has kept any pay rises to staff below the increase in the annual cost of living. In 2010-11, it introduced a basic pay freeze for all staff. It also made no progression payment for its 53 staff earning in excess of £50,000 a year, who made up 11% of the total staff paid out of the Sovereign Grant. In 2011-12, it continued the freeze for all staff on salaries above £21,000 a year. In 2012-13, the Household awarded a 2% increase in basic pay for staff other than the Private Secretary to The Queen and the Keeper of the Privy Purse, who received no increase. But it also awarded an increase of £7,000 to the annual pay of one member of the Lord Chamberlain's Committee. The Household told us this rise was to reflect an increase in his responsibilities.[13]

7. Since 2007-08, the Household's headcount has been largely static at just over 430 people. Although its staff costs increased from £18.4 million in 2007-08 to £19.5 million in 2012-13, this represents a real-terms reduction of 6%.[14] The Household told us its staffing has stayed at very much the same level to enable it to maintain the same level of activity for The Queen's programme. However this contrasts with the public sector, which has cut staffing over this period while being expected to increase efficiency and deliver greater activity with fewer staff.[15]

8. At 31 March 2012, 39% of the Royal estate was below the Household's target condition. The Household expected to have an update available later in 2013, and that the updated

7 Q 5

8 Comptroller and Auditor General's Memorandum, Figure 7

9 Q 53

10 Q 1

11 Qq 8, 10, 69, 89

12 Q 66

13 Qq 13-16, '*The Sovereign Grant Annual Report and Accounts 2012-13*', HC 212, 27 June 2013, page 8, Ev 15 Letter from Royal Household to PAC Chair 21 October 2013

14 Comptroller and Auditor General's Memorandum, Figure 8, Appendix 1

15 Qq 9, 16

position would show a marginal increase in the proportion of its estate below the target condition. The Household considered that the condition assessment has helped it to set an annual budget for property maintenance and to focus on priority projects, where the condition of the estate is poorest.[16] In each of the years from 2007-08 to 2012-13, the Household has spent between £7 million and £9.5 million on its property.[17] The Household intends to allocate between 50% and 60% of the increase in Grant funding in 2013-14, and in future years, to addressing its maintenance backlog.[18] However, the Household has not developed an estimate of the cost of the repair work currently needed. In its view, there had been no point in doing so until it knew whether it would have additional money to allocate to repairs. The Household is belatedly developing a 10-year maintenance plan. It intends to develop an estimate of the cost of the maintenance work requirements which will remain at the end of this 10-year period.[19]

9. The Treasury's oversight of the Household's activities relating to the Grant is defined in a Framework Agreement which requires the Household to submit an annual Sovereign Grant Budget for the forthcoming year to the Treasury for approval.[20] The Treasury discusses with the Household progress against the budget in the course of the year, monitors the Household's spending, establishes whether its plans are affordable, and attends the Household's Audit Committee. The Household has given the Treasury a three-year plan of spending on maintenance of the estate. However, the Treasury approved the Household's proposed profile of expenditure of the 2012-13 Grant without having requested from the Household an estimate of the total cost of required renovations to the estate. The Treasury told us it was satisfied that the Household's three-year plan was adequate.[21]

10. The Household's spending on utilities and IT has increased in real terms from £8.2 million in 2007-08 (at 2012-13 prices) to £9.9 million in 2012-13.[22] In 2012-13, its electricity consumption increased by 3%, its gas consumption increased by 14% and the waste it generated increased by 9%. The electricity bill for Buckingham Palace and the Royal Mews was £312,000 and the gas bill was £462,000.[23] The Household acknowledged that it can use energy more efficiently and has also advertised to recruit an Environmental Manager with the aim of achieving significant changes in energy use.[24] It has introduced a sustainability policy and procedures, established a hydroelectric facility at Windsor Castle, and introduced smart-meters across the estate. It intends to use some of the money in the Grant to replace boilers in the main palaces, which are nearing the end of their useful life. The Household told us that replacing the heating system in Buckingham Palace, which is

16 Qq 56-65

17 Comptroller and Auditor General's Memorandum, Figure 9

18 Qq 34, 45-55

19 Qq 52-53

20 Comptroller and Auditor General's Memorandum, para 3.8

21 Qq 57-59, Ev 17, letter from Treasury to PAC Chair, 21 October 2013

22 Comptroller and Auditor General's Memorandum, Figure 13

23 '*The Sovereign Grant Annual Report and Accounts 2012-13*', HC 212, 27 June 2013, page 21, Ev 15 Letter from Royal Household to PAC Chair 21 October 2013

24 Qq 26-31, 74-75

over 60 years old and is not efficient, will cost between £500,000 and £1 million. It expects to carry out the replacement within three to five years.[25]

11. The Household uses a broker to arrange energy purchases through wholesale markets and benchmarks its prices against Government procurement rates. However, it has not succeeded in beating the overall rise in prices in the energy markets.[26]

25 Qq 26-31, 74-75

26 Qq 70-73

2 Previous PAC recommendations

12. This Committee reported in 2009 that work required to repair the Victoria and Albert Mausoleum, a monument of national importance, had been outstanding for 14 years and that its condition was getting worse. The report noted that repairing the Mausoleum would cost around £3 million and that the Household had no plans to do the required work, as it had 'resource constraints'.[27] In its 2012-13 Annual Report, the Household noted that despite the Mausoleum being on the English Heritage 'at risk' register, its restoration was not a priority for the Household. The report added that it was uncertain whether there would be sufficient funding to complete the restoration of the Mausoleum in the foreseeable future. The report noted that the Household had carried out only minor works to dry the building and to monitor its condition before considering whether to restore it.[28] Work required to repair the Mausoleum has now been outstanding for 18 years. We were surprised at the complacency which the Household had shown in their report, and asked the Household what plans it had to safeguard the Mausoleum's future. The Household said it would like to work on the whole of the Royal estate maintenance backlog straight away, but it had limited funds and it was not possible to do everything at once.[29]

13. In 2009, following the recommendation in the Committee's report '*Maintaining the Occupied Royal Palaces*', the Household formally documented an income generation strategy to supplement the funding received from Grant-in-Aid.[30] The Household's income increased from £6.7 million in 2007-08 to £11.6 million in 2012-13. In accordance with this strategy, the Household increased its income from the commercial letting of properties and by making use of facilities outside the palaces for commercial events.[31] The Household told us that its success in increasing its income by 54% in the past five years had allowed it to maintain the level of activity needed to support The Queen's programme.[32]

14. The Committee also recommended in 2009 that the Household work with the Royal Collection Trust to revise the arrangements for the collection and distribution of visitor income. In 2012-13, the Trust paid £3.7 million to the Household in facilities management charges, compared with £1.8 million in 2007-08.[33] In 2012-13, the Household extended Buckingham Palace summer opening to 78 days, receiving 514,000 visitors, compared with 63 days in 2008, when it received 392,000 visitors, and 56 days in 1993, when it received 379,000 visitors. The average number of daily visitors is around 6,500.[34] Other historic buildings, for example, the Palace of Westminster, are open to visitors for longer periods

27 '*Maintaining the Occupied Royal Palaces*', 24th Report of Session 2008–09, HC 201, 27 April 2009

28 '*The Sovereign Grant Annual Report and Accounts 2012-13*', HC 212, 27 June 2013, page 32

29 Qq 63-65

30 *Maintaining the Occupied Royal Palaces*', 24th Report of Session 2008–09, HC 201, 27 April 2009

31 Comptroller and Auditor General's Memorandum, Figure 11, para 3.21

32 Q 10

33 Qq 80-81

34 Ev 15, letter from Royal Household to PAC Chair 21 October 2013

through the year than Buckingham Palace, despite Parliamentary activities taking place at the Palace of Westminster at the same time.[35]

15. The Household told us that it has looked at opening Buckingham Palace in the winter, but decided it was not commercially viable as it would not generate additional profit. However, it has opened Buckingham Palace to private tours between September and April and has found these to be popular with the public. In 2012-13, it ran just under 120 tours. It considered there are constraints to greater opening of Buckingham Palace due to the number of activities taking place in the Palace and the fixed set-up costs for each opening.[36]

16. In its 2002 report *'Royal Travel by Air and Rail'*[37], the Committee recognised the major savings which the Household had achieved in the cost of air travel and the cost of the Royal train. The Household's overall spending on Royal travel has fallen from £5 million in 2007-08 to £4.5 million in 2012-13. Most of this fall is due to fewer hours of chartering fixed-wing aircraft, while the Household's spending on rail travel has been stable.[38]

17. The Committee recommended in 2002 that the Household review the future of the Royal train after The Queen's Golden Jubilee celebrations and consider alternative options for its provision. In April 2009, the Household awarded a contract for the operation of the Royal train to D B Schenker, following a competitive tender. The Household told us that this reduced the maintenance costs by 9% in real terms, mainly through extending the maintenance interval for some of the rolling stock.[39] The Household is currently reviewing the options for retendering the operation and maintenance of the Royal train, which dates from the 1970s. It intends to continue to use the Royal train for as long as the rolling stock is working, which it believes will be for another five to 10 years. However, it has not yet developed alternative options or a replacement to a Royal train, which it considers provides safe and secure transport, particularly for overnight travel to early-morning Royal engagements. It acknowledged that this will require a major decision ahead on whether or not to invest in a new Royal train.[40]

35 Comptroller and Auditor General's Memorandum, paras 3.20-3.22, Figure 11

36 Qq 81-88

37 '*Royal Travel by Air and Rail*', Sixtieth Report of Session 2001–02, HC 529, 17 July 2002

38 Comptroller and Auditor General's Memorandum, Figure 10

39 Qq 89-94

40 Qq 89-99

Formal Minutes

Wednesday 15 January 2014

Members present:

Mrs Margaret Hodge, in the Chair

Stephen Barclay
Guto Bebb
Jackie Doyle-Price
Chris Heaton-Harris
Meg Hillier
Stewart Jackson
Fiona Mactaggart
Austin Mitchell
Nick Smith
Justin Tomlinson

Draft Report (*The Sovereign Grant*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 17 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Thirty-ninth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Monday 20 January at 3.00 pm

Witnesses

List of printed written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2013–14

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Sixteenth Report	FiRe Control	HC 110
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Twenty-second Report	High Speed 2: a review of early programme preparation	HC 478
Twenty-third Report	HM Revenue & Customs: Progress in tackling tobacco smuggling	HC 297
Twenty-fourth Report	The rural broadband programme	HC 474
Twenty-fifth Report	The Duchy of Cornwall	HC 475
Twenty-sixth Report	Progress in delivering the Thameslink programme	HC 296
Twenty-seventh Report	Charges for customer telephone lines	HC 617
Twenty-eighth Report	The fight against Malaria	HC 618

Twenty-ninth Report	The New Homes Bonus	HC 114
Thirtieth Report	Universal Credit: early progress	HC 619
Thirty-first Report	The Border Force: securing the border	HC 663
Thirty-second Report	Whole of Government Accounts 2011-12	HC 667
Thirty-third Report	BBC severance packages	HC 476
Thirty-fourth Report	HMRC Tax Collection: Annual Report & Accounts 2012-13	HC 666
Thirty-fifth Report	Access to clinical trial information and the Stockpiling of Tamiflu	HC 295
Thirty-sixth Report	Confidentiality clauses and special severance payments	HC 477
Thirty-seventh Report	Supporting UK exporters overseas	HC 709
Thirty-eighth Report	Improving access to finance from small and medium-sized enterprises	HC 775

Oral evidence

Taken before the Public Accounts Committee

on Monday 14 October 2013

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon	Austin Mitchell
Chris Heaton-Harris	Nick Smith
Mr Stewart Jackson	Ian Swales
Fiona Mactaggart	Justin Tomlinson

Amyas Morse, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General, **John Thorpe**, Director, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

The Sovereign Grant (HC 722)

Examination of Witnesses

Witnesses: **Sir Alan Reid**, Keeper of the Privy Purse and Treasurer to the Queen, and **Mike Stevens**, Deputy Treasurer to the Queen, gave evidence.

Q1 Chair: Welcome. You are miles away from us, but hopefully the conditions in the room mean that you can hear what we are saying—we usually operate in a much smaller room.
This is a completely new way of having greater transparency of the royal accounts to Parliament, and through Parliament to the public, so I very much welcome this development and, I think, members of the Committee share that view. I really wanted to hear whether this made a difference to the way in which you worked and, if so, what difference?
Sir Alan Reid: Thank you. It does make a big difference to how we work. First, it gives us security and certainty of the funding, which means that we can make long-term plans, particularly to do with the property backlog that we want to manage our way through. It also allows us to merge the funds so that if we manage to save money on, say, royal travel, we can use that to work on the property deficit. It gives us a chance to prioritise the way we spend the money much better than when there were separate grants.

Q2 Chair: And has the transparency changed? For the first time, you are accountable through us to Parliament and the public in a much more transparent way for how the Sovereign Grant is used. What difference has that made to how you work?
Sir Alan Reid: We are very happy with the level of transparency as it now stands. We think we were fairly transparent in the past in that we were audited by external auditors. We had an audit committee that consisted of external members. The media would go over our accounts, which were published annually, and we probably gave more detail than any other organisation in the country, so we felt that that was good, but we are perfectly happy to be audited by the National Audit Office and to appear before you on wider topics than just property and travel.

Q3 Chair: And has it changed how you do your work? I get the point about merging budgets and how that gives you greater flexibility and security. We will come back to that, because that is subject to a review every four or five years, isn't it?
Sir Alan Reid: There is no doubt that having the National Audit Office involved and knowing that we can come in front of you does help focus our minds.

Q4 Chair: Could you point at something that has changed how you are working? Could you give us an example—focus your mind and say what is slightly different?
Sir Alan Reid: I could take the example of royal travel on which, over the past 20 years, we have managed to reduce expenditure by 72%, but we are probably even more focused—not simply because of the increase in transparency, but because we have less money than we used to have—on getting value for money from every travel journey that is taken.

Q5 Chair: Okay. We are looking at the year 2012–13, and in that year your expenditure was greater than your income and you had to delve into your reserves. You have now left your reserves at £1 million from a high of £35 million. There are two questions arising from that. First, how did you allow yourself to get into the position where your expenditure exceeded your income in the new settlement? Secondly, is it not a bit risky to leave yourselves with just £1 million in reserves?
Sir Alan Reid: A quick bit of history. The £35 million reserve that we had in 2001 was absolutely intended to be spent by the end of 2010. That was part of the civil list settlement, which was kept at £7.9 million for another 10 years on the understanding that we would spend the reserve. We managed to make the reserve last for more than 15 months longer by saving

money towards the end of the 10-year civil list period, and that enabled us to fund through to the transition to the Sovereign Grant. There was a gap between the old civil list and the Sovereign Grant. We managed to carry forward £3 million that really we should not have been in a position to carry forward. The fact that we had that money to spend in the year that has just finished was due to thrift earlier. Last year was the very first year of the Sovereign Grant. The Chancellor of the Exchequer drove a very hard bargain indeed for last year. He said that, in moving to the Sovereign Grant, we could not go on to the formula of 15% straightaway, and he insisted that we got only £31 million. We explained to him that, without a massive cut in levels of activity, we would be coming in at about £32.5 million and that the only way for us to cope with that was to dig into the reserve. As I say, however, the reserve was not really meant to be there in the long term.
Looking longer term, we would like to build up a modest reserve, but as long as we have a property backlog, we do not anticipate building up a reserve of more than about 5% of the annual level of the grant. Once the properties are up to date, we can look at a bigger reserve.

Q6 Chair: I understand your disappointment in year one but, given the state of the public finances, every service funded through the public purse faced cuts. What I do not understand, given the unwelcome message you got from the Chancellor in year one, is why that did not lead to your drawing back on your expenditure so that you lived within your income. I hear what you say about 5%, but 5% is a pretty conservative figure for reserves and you are well below that—ending up this year on £1 million.
Sir Alan Reid: Absolutely. We are well below that, and our ambition is to build it from—

Q7 Chair: I do not understand why you did not cut back your expenditure to live within your means.
Sir Alan Reid: We really believed that it is not wise to cut back on the level of activity of the monarchy. We were keen to—

Q8 Chair: Let me put it to you that there are whole swathes where we think it is unwise to cut back the level of activity, but what one would have looked for is efficiency savings.
Sir Alan Reid: Right. We did achieve a large number of efficiency savings—

Q9 Chair: You achieved more income—what went up hugely was your income, which is an easy way of getting more money. I mean it is all hard, but income from property or from charging people to go and see the royal collection is not a tough hold on trying to eke out efficiency savings. If I look at staffing, it has scarcely moved—I do not have figure in front of me, but over the past eight years, it is more or less at about the same level.
Sir Alan Reid: The staffing has stayed at very much the same level in order to maintain the level of activity—

Q10 Chair: I am sorry to say this to you again, but throughout the world of things funded by the public purse, people have had to do more for less. On the whole, in the public sector, that means fewer people delivering more efficiently. That does not appear to have happened; in fact, you overspent—to remind you again—by £2 million and have had to draw down from your reserves so that they are now at £1 million.
Sir Alan Reid: We increased the level of activity that year because it was the diamond jubilee. We had efficiency savings, because we had three years of staff pay control, which reflects through in the accounts. Also, you may think that income generation is straightforward, but it is not, and we increased that by 54% in the past five years to allow us to maintain the level of activity. Under the Sovereign Grant, we are allowed to manage to a large degree the way we think the priorities should be, and we felt that we did that simply by drawing down the extra balance of a couple of million from the reserve.

Q11 Chair: Our job here is to look at whether you are doing things sensibly. This is not a value-for-money Report, but it just hits you when you read that, in year one, you overspent and that there was no cut back in staffing. No one is suggesting that that should lead to a change in activity. I want to deal with one more issue on the staffing, but there is an issue of whether you cannot eke out efficiencies and that you ended the year having to draw on your reserves by £2 million, leaving them at the very dangerous level of £1 million—that is just odd. May I just ask: did you have a wage freeze in 2012–13 for your staff?
Sir Alan Reid: For myself?
Chair: No, your staff.
Sir Alan Reid: Yes, we did.

Q12 Chair: Everyone over £21,000 had a wage freeze.
Sir Alan Reid: Everyone above £21,000 per annum.

Q13 Chair: Let us turn to page 8 of your report, on remuneration. Was it really sensible for three of the five members of the Lord Chamberlain's Committee, all earning over £100,000, to give themselves extra money when they were expecting staff on £21,000 not to have extra money?
Mike Stevens: Madam Chair, may I say that Lieutenant-Colonel Andrew Ford had a pay rise because he took on additional responsibilities in that year for royal travel? Underpinning the increases, over the five years since 2007–08, the household pay bill has fallen by 6% in real terms—

Q14 Chair: Yes, because you have kept everyone else on a pay freeze. It strikes me that it is not a very good message for a public organisation to freeze the wages of its staff at a very low level—from £21,000—when top management, who were all earning well over £100,000—sorry, Earl Peel was earning £82,000, which went up to £84,000—gave themselves an increase? No doubt you can justify that, but it seems to me to be not a very good message at a time of constraint.

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Sir Alan Reid: It is coming across in the wrong way, clearly. My pay was frozen. The pay of the private secretary to the Queen was frozen, as it shows here.

Q15 Chair: Three out of the five went up.
Sir Alan Reid: Sir David Walker had moved from the RAF on to a fixed-term contract with us, and Sir Andrew Ford had his responsibilities significantly increased.

Q16 Chair: You mean it went up from £120,000. They just went up—not by massive amounts on what they earn, but if someone is on £21,000, another £2,000 is a 10% increase.
Sir Alan Reid: Yes—
Chair: If you are on £21,000, a rise of £7,000—from £109,000 to £116,000—is a heck of an increase. I am just putting it to you that that doesn't feel very fair.
Sir Alan Reid: But he is now fulfilling a much bigger job.
Chair: Maybe people around the system felt they were fulfilling really important jobs in jubilee year, too. It feels wrong to me. It doesn't feel very fair, if we are in it all together.

Q17 Nick Smith: I have a couple of questions. Related to the last point, I understand that there was a pay freeze for staff earning over £50,000 a year. How many staff did that affect?
Sir Alan Reid: I don't have the number; I am sorry. We could send you a note on that.

Q18 Nick Smith: All right. I think it's fair to acknowledge that you have reduced travel costs in recent years, but one budget line that has gone up is helicopters—from £1.2 million in 2007–08 to £1.6 million in 2012–13. Is that right? Why has that gone up by a third?
Sir Alan Reid: There has been increased use of the Queen's helicopter. It is flying more hours than it did.

Q19 Nick Smith: Why is that?
Mike Stevens: Perhaps I might comment. The Queen's helicopter was originally acquired in 1999 when the royal household took on responsibility for royal travel from the Ministry of Defence. We replaced the Wessex helicopters that were operated by 32 Squadron. There was a lease of 10 years, which was renewed in 2009. At the beginning of the 10-year period from 1999 to 2009, we had fixed most of the maintenance costs for the helicopter. As a lot of the costs are denominated in US dollars or euros for maintenance arrangements, those costs went up in 2009.
It is also pertinent to say that something that is not included in these figures is the profit of £1.5 million that the royal household realised on the sale of the old helicopter as part of the trade-in arrangements. If you amortise that trade-in over the next 10 years, we have arguably not seen an increase in the cost of the helicopter.

Q20 Nick Smith: You clearly have, because it has gone up from £1.2 million to £1.6 million. I understand the point about savings and I sort of understand the point about a weaker pound and maintenance costs, but I have still not heard a reasonable explanation of why it has gone up by one third.
Sir Alan Reid: The helicopter has replaced the amount of fixed-wing aircraft we were using, so you will see a compensating saving of £500,000 in what has been spent there.

Q21 Nick Smith: Okay; thank you for that. I want to go to page 5 and point 2—
Chair: Of the NAO Report.
Nick Smith: Of the NAO Report. It is about overall income. The Chair made the point earlier about your budget for 2012–13 being £31 million and that perhaps not being enough, as you have had to take money from reserves, but I was quite interested to see that your budget, because of the formula, is going to go up to £37.9 million in 2014–15. What is that as a percentage increase, please?
Sir Alan Reid: The annual increase is about 5% between 2013–14 and 2014–15.

Q22 Nick Smith: But an increase from £31 million to nearly £38 million—I make that just over 20%.
Sir Alan Reid: Right. There is a bigger increase—as we move off the fixed amount the Chancellor gave us in the Sovereign Grant and on to the formula, there is an increase of 16% at that point, but I will make the point that the £37.9 million that we receive next year is about the same in real terms as we received 10 years ago, in 2003–04.

Q23 Nick Smith: I understand the point about historical costs and the savings you made, and they are fair enough. What I am still trying to understand is why, over two or three years, you are getting a 20% increase in income.
Sir Alan Reid: It is sort of an artificial increase, because the base point was set not on the 15% formula, but on a much lower number that the Chancellor of the Exchequer was insistent on, for reasons that we understand.

Q24 Nick Smith: Have you an assessment of what the income is likely to be in 2014–15, when it is next going to be looked at by the Chancellor?
Chair: That's when it's going to go up.
Sir Alan Reid: Sorry, on the formula or the amount of the grant?
Nick Smith: On the amount of grant—
Chair: Nick, I think you mean 2015–16.
Nick Smith: Yes, excuse me, Chair, you are right—2015–16. Have you an assessment of what your income is likely to be then?
Sir Alan Reid: No. We don't know what the Crown Estate will make as profit for 2013–14.

Q25 Nick Smith: I wonder whether you can help me. I can understand why you have some costs because of maintenance of buildings that you want to spend money on over the next few years, but it still seems like a hefty increase in income by the time we get to 2014–15.

Sir Alan Reid: It is undoubtedly a significant increase if you compare it with 2012–13, but compared with 2011–12 or 2003–04, it is not a significant increase. It is a quirk of the low amount that the Chancellor set for the first year of the Sovereign Grant.

Q26 Ian Swales: I would like to turn to one area of costs that is clearly an issue for you, which is utilities. I am sure you will be quick to say that utility prices have increased substantially. However, if we look at page 20 of the annual report and accounts, you introduce the section on sustainability by saying: "Considerable emphasis is placed on the environmental impact of activities and energy conservation, both to save costs and to reduce environmental pollution." On the facing page, page 21, we can see that, over the years, electricity consumption has gone up, from 7.8 million kWh to 8 million kWh. Electricity generation, on your CHP units, is down, from 2.9 million kWh to 2.6 million kWh. Use of gas is up, from 21 million kWh to 24.4 million kWh. And you have even generated more waste—an increase of 9%. This doesn't feel like it fits with that introduction that considerable emphasis is being placed on environmental issues, so would you like to comment on that?

Mike Stevens: One of the things that we have been looking to do is develop the sustainability policies and procedures within the royal household. The most recent example of that was an arrangement involving the establishment of a hydroelectric facility at Windsor castle, whereby the castle is now taking roundabout 5% to 10% of its energy from a hydroelectric plant. We have introduced smart meters across all the Estate, so that roundabout 95% of our energy usage is now being monitored through smart meters. We did not have that facility—

Q27 Ian Swales: When did you do that, as a matter of interest?

Mike Stevens: That project was completed during 2012–13. The key thing about the installation of smart meters is, one, the collection of data; the second thing is the interpretation of data and what you are going to do with them. You will have read—it is part of our forward-looking plan within the Sovereign Grant Annual Report and Accounts—that we were going to appoint an environmental manager. We have recently advertised for that post and we anticipate that they will be able to bring about some significant changes.

With regard to the actual consumption that you talk about, most people in the room will probably recognise that towards the end of the financial year 2012–13 we had a very significant cold snap. Certainly our gas consumption increased significantly last year.

Finally, the other thing to say is about income generation. It arises as a result of an increase in activity at the palaces, such as the increased use of St James's palace, so our energy consumption is going to go up. It is a variable cost of generating that income.

Q28 Ian Swales: I hear that, but the figures are quite startling. Gas was at 15%, for example. I think all of us recognise what you said about the cold winter, but that is an enormous increase in gas consumption in one year. Is that all accounted for by the cold weather?

Mike Stevens: We certainly saw a very significant increase in the final quarter of last year. But clearly this is an area where we will wish to look at ways in which we can reduce. If I may say so, one of the areas in which the increase in Sovereign Grant will be applied is the replacement of boilers in the main palaces, which are nearing the end of their useful life and are probably not as efficient as some of the modern technology that we could obtain today.

Q29 Ian Swales: Is there anything you are learning from the smart meters you have put in that you could reveal? Are they showing any particular inefficiencies or hot spots that you are going to deal with first?

Mike Stevens: One of the key projects for the next 15 years—and it will take 10 to 15 years—will be the re-servicing of Buckingham palace. The heating systems there are antiquated—they are over 60 years old—and do not lend themselves to the efficient use of energy. If we can replace those heating systems, we can introduce many of the mechanisms and systems that you would find in, say, modern office buildings. That will drive energy consumption down.

Q30 Ian Swales: My last point is about waste. You generated over 5,000 tonnes. What steps are you taking to manage waste better? I am guessing you are going to tell me that more use of the properties has resulted in more waste, but what can you do about reducing the amount of waste that is generated and put into the system?

Mike Stevens: There is a correlation with the level of activity—certainly during the jubilee year last year, with events at the palace that increased the waste. As well as the introduction of smart meters, probably one thing is that our recording of waste is getting more sophisticated and more accurate. It may not necessarily be that it is increasing but instead that we are getting a better handle on the figures for waste now.

Q31 Ian Swales: That is waste generation; what about recycling? Local councils now measure their recycling performance. Do you measure yours?

Mike Stevens: We do have figures in our management accounts. We don't necessarily include them in the full annual report. Again, that is something that we are looking at, to try to improve the proportion that we are recycling. Within the household, we are using more recycled materials in the products that we use day to day.

Ian Swales: I raise this because last year 10% of your costs were in the whole utilities area, so that is a very significant area for you.

Q32 Austin Mitchell: It is quite right to finance the activities and engagements of the Queen, but it looks to me, from the NAO Report, that you managed to survive and manage the finances by letting the buildings deteriorate, by freezing the staff costs and by digging into the reserves. Is that a fair summary of what has happened?

Sir Alan Reid: I think that does summarise, to a degree, what happened last year, but we would like to bear in mind the fact that it was the Queen's diamond jubilee. There was a desire that she and her family be seen around the country more often and for there to be more events. We would love to deal with the backlog of property; we have signalled that for many years. We now have a system that has the potential to provide a surplus on our normal spending. We have committed by far the bulk of the increases we will get from the Sovereign Grant to fixing the property backlog.

Q33 Austin Mitchell: So work is being carried on while they are living in crumbling surroundings?
Sir Alan Reid: Clearly the buildings are not actually falling down.

Q34 Mr Bacon: The wall as you walk in through the main gates of Buckingham palace was. I remember walking under it and it being explained to us that the stone—I think it is from Caen in Normandy—was dropping on people, although I don't think anyone was actually hit. After many years of painting it, layer after layer, something finally had to be done.
My question relates to Mr Mitchell's point. Every householder knows that the longer you leave something, the worse it gets and the greater the overall cost of maintenance and restoration in the long term. You previously assessed that you were 39% below your target condition, and you are now looking at the Estate again. Do you think it is now worse, and if so how much worse?
Sir Alan Reid: Given the amount that we have had to spend in that period it is probably marginally worse, but we will know towards the end of the autumn.

Q35 Chair: Towards the end of the autumn?
Sir Alan Reid: Yes. In other words, in the next couple of months.

Q36 Mr Bacon: I remember vividly crawling on top of Buckingham palace and looking at all the cracked lead.
Chair: What were you doing there, Richard?
Mr Bacon: We were invited. It was some years ago. Not that anything was done about it. I don't know whether your lead is still cracked. There was an issue, I remember, with the picture gallery. The rain was coming in on the expensive paintings.
Ian Swales: He was arrested shortly afterwards.
Mr Bacon: I was not wearing a Batman costume at the time, I hasten to add. It was obvious from looking at the condition that some of the drawing rooms were in—one of your expert keepers showed us around—that the standard that any keeper of historic buildings would expect the rooms to be restored to would be phenomenally expensive. Yet, in terms of world heritage, you would not want to do it to a poor standard. How long will it take you, given the vast expenditure involved, to get the Estate back to the target condition?
Sir Alan Reid: I think you are describing two issues. One is the fundamental fabric of the building, which is what we call property backlog. Then there is the state of the furnishing—wallpaper, gilding work, etc.—in the room. On the structural side of life, we hope, if the Sovereign Grant stays at the percentage it is, that within about 10 years we could have made major inroads into getting up to date with that. We will probably need to prioritise a room a year for refurnishing, so that could take well over 10 years. But they haven't been refurnished in 60 years.

Q37 Mr Bacon: We were told at the time of our visit that the electrical wiring in Buckingham palace had not been redone since 1949, which sounds like a bit of a safety issue. Correct me if I am wrong, but the Report makes it look like you are spending £800,000 just to remove the asbestos to make it easier to do electrical wiring in the future; you are not actually doing the rewiring. Have I read that wrongly?
Sir Alan Reid: In removing the asbestos in Buckingham palace we are creating ducting that makes it a lot more efficient to do the new services—not just electricity.
Chair: Can we go back to Austin?

Q38 Austin Mitchell: We wouldn't want Buckingham palace to turn into a hard-hat area for Mr Bacon's next visit. It sounds pretty ominous to me.
We were sold the Sovereign Grant system as a means of simplifying and clarifying the whole financial position. In fact, it contains an element of bamboozlement because it is based on 15% of the income from the Crown Estate, but the Crown Estate can fluctuate. As Nick has pointed out, it is scheduled to go up to £37.3 million in 2014–15. The system deceives people. Wouldn't it be better if we simply had costs, and payment on a costs basis, rather than this mythical entity of the Crown Estate, which is really the estates of the nation, and then some percentage of the revenue from them?
Sir Alan Reid: The Sovereign Grant system was put into place by Parliament and the Government. If you feel there is an element of bamboozlement, that is not something that I agree with. It was not our decision as to what system is in place. I would also make the point that Crown Estate income is the monarch's until they surrender it at the beginning of each reign. If you look at the last five years, the Government, after allocating money to the monarchy, has had a surplus of £1.2 billion, so it still seems a fairly generous system from a Government point of view.

Q39 Austin Mitchell: I see that you are having to juggle to a certain extent. A percentage of the take on the ticket sales for tours at Buckingham palace goes to the Sovereign fund, but not all of it. What happens to the rest of it?
Sir Alan Reid: It goes to maintaining all the works of art in the royal collection that the Queen owns on behalf of the nation.

Q40 Austin Mitchell: But the costs are being juggled across several accounts.
Sir Alan Reid: They are being spent in order to maintain works of art on the one hand, or through the facilities management charge that we make to the royal collection to help with the maintenance,

increasing the amount of Sovereign Grant that is there to be spent.

Q41 Austin Mitchell: Just one further question. On the costs of royal engagements, which I would want to finance in full—I am not quibbling at the costs—who is covered by the costs? I see that the Department for Culture, Media and Sport covers ceremonial occasions. There were 3,000 visits by members of the royal family. How far down does that go?
Sir Alan Reid: Which members of the royal family?

Q42 Austin Mitchell: The Duchess of Cambridge came to Grimsby, and I curtseyed like the rest of them. I thought it was a marvellous visit, but who paid for it?
Sir Alan Reid: Which visit are you asking about?

Q43 Q43 Austin Mitchell: How far down the scale of the royal family are visits paid for?
Sir Alan Reid: It depends. If you work from the top, you have the Queen and Duke of Edinburgh; Prince of Wales and Duchess of Cornwall; Duke and Duchess of Cambridge; Prince Harry; Duke of York; Princess Royal; Earl and Countess of Wessex; Duke of Kent; and the Gloucesters and Princess Alexandra.

Q44 Austin Mitchell: I notice, lastly, that they are much cheaper by car than by flight or by rail. Why not have more visits by car?
Sir Alan Reid: Yes, that is a good idea. One of the benefits of the Sovereign Grant system is that we have that possibility of moving more people into cars.

Q45 Chair: I just want to bottom out the repairs. On the repairs, 37% of your Estate was not up to scratch when you last looked at it.
Sir Alan Reid: It was 39%.

Q46 Chair: It was 39%; apologies. And that is likely to get worse. I am trying to pin you down to more specific answers. You will get a substantial increase. I am trying to work it out. It goes up from £31 million in 2012–13—correct me if I am wrong on these figures—to £36.1 million in 2013–14 and to £37.9 million in 2014–15. Are those right?
Sir Alan Reid: Yes.

Q47 Chair: Out of that extra £5 million in 2013–14 and nearly £7 million in 2014–15, how much of that will be spent on conserving the heritage assets?
Sir Alan Reid: Probably in excess of half of the increase, year on year.

Q48 Chair: What does that mean? Is it 50%, 60%? I am trying to get a feel for how much.
Mike Stevens: We are budgeting to spend 50% to 60% of the increase in the Sovereign Grant in 2013–14, and in successive years on addressing the backlog in property maintenance.

Q49 Chair: Okay. What dent will that make on the problem you currently face?
Sir Alan Reid: The 39%—let's assume that it is the same this autumn as it was two years ago—we don't cost under that mechanism because there is no real point until you are actually going to carry out the repairs. But if we say that that is in excess of £50 million of expenditure—

Q50 Chair: You don't cost it? So you have no idea of how much? I accept that the costings will not be detailed, but if I had a repair bill in my house—living in an old building, I have constant repair bills—I'd have a pretty good idea of where the priorities lie in terms of repair and what I can afford within my budget.
Sir Alan Reid: Yes, and over the next three years we have that, but we are looking at a much longer-term programme.

Q51 Chair: But you haven't got costings, so how are you deciding priorities?
Sir Alan Reid: How do we assign priorities?
Chair: You have just said that you are going to increase your expenditure by £2.5 million in 2013–14 and by £3 million or £3.5 million in 2014–15. So you are going to put another £6 million into your buildings, and you have this huge backlog of repair and you don't know how much it is.
Sir Alan Reid: We know that 39% of the building is below our target state. That target state was set after the last PAC meeting.

Q52 Chair: You have no idea how much it will cost to put it right.
Sir Alan Reid: There is no point in costing all of it—other than that it is interesting to know that it is £40 million or £50 million—until we know we are going to get the money.
Chair: No—it helps you budget.
Sir Alan Reid: So we have been working on a three-year plan. We are currently working on a 10-year plan, which will give us the opportunity to give you a very specific answer to your question.

Q53 Chair: Dear, dear, dear. I am getting more worried as we go along this afternoon, because I don't agree with that analysis. If I had a problem with that amount of my heritage assets being in disrepair, I would want to have an overarching, vague figure. The figure would not be 100% accurate—building costs rise very fast, particularly in relation to repairs of heritage assets—but I would want to have some idea because I want to know how long it would take.
I also want to know—this is my other question—why you are spending only half the extra money you are getting on what is clearly probably the most urgent bit. That is in the context of the earlier comment that you have not cut your staff but given them a wage freeze, not at the top but at the bottom. It would seem that the priority ought to be much more than 50% towards dealing with an issue that certainly matters to the heritage of this country.
Mike Stevens: Madam Chairman, may I give you, hopefully, some assurance on our prioritisation for property maintenance? If I might go back to when we last appeared before the Public Accounts Committee on the review of the maintenance of the occupied royal palaces, one of the actions arising from that was

that we needed to have a more structured methodology for the assessment of our priorities for determining that backlog. The backlog was largely based on the professional judgment of our staff. We worked with Defence Estates to develop a methodology. We undertook a condition assessment of all areas of the estate, which ended up providing this figure of 39% of the estate being below target condition.

What has that enabled us to do? First, it has enabled us in the short term to ensure that, when setting the annual budget for property maintenance, we are able to identify the priority projects: those where the condition is poorest. In the longer term, we will update our 10-year programme. Back in 2011, before the introduction of the Sovereign Grant, there was considerable uncertainty as to the level of funding that would be available for the next 10 years. As we said earlier in the hearing, we now have that certainty, which enables us to update the 10-year plan and therefore to identify and cost the likely backlog at the end of that 10-year period, assuming the Sovereign Grant continues at the current levels.

Q54 Chair: When did you last come before the PAC?
Mike Stevens: It was 2009.

Q55 Chair: So this is four years ago. It strikes me that it isn't very sensible planning not to have any idea of the likely financial bill, and therefore the priorities that you can set within it. You have not answered my other question: why are you spending only 50% of the massive increase you are getting in your budget on what is clearly a huge priority—to stop the bricks falling on Richard's head?
Sir Alan Reid: The 50% is on top of what we are currently spending.

Q56 Chair: Why only 50% when, to go back to the rest of your budget again, you have not eked out efficiency savings in your staffing? It doesn't seem to me that you have a base on which to take rational decisions.
Sir Alan Reid: In general—apart from the current year, in which there is a 16% increase—the increase in the Sovereign Grant is 5%. We would anticipate that our staff will want a pay increase in each of these years and that will use up some of the money. We also intend to put some into reserves, as you pointed out earlier. If we can put more than 50% in, we will.

Q57 Chair: We should have had a Treasury spokesperson here, but we have not. But the question I would have asked if they had come, which, Marius, you probably cannot answer, is: why on earth, in approving the budget—the task that you now have to do—have you not requested a proper estimate and plan for the cost of the renovations? I am sure you will tell me that you cannot answer that, but let me ask the question.
Marius Gallaher: I am certain that we do receive detailed figures from the royal household—

Q58 Chair: Well, you don't, because they haven't got them. Don't tell me you get them when they have just told us they haven't got them.
Marius Gallaher: To the degree that the Treasury need, we have received figures—

Q59 Chair: Don't give me that—please don't give me that. I would much rather you just said that you will take it away and look at it. They have just said that they haven't got detailed figures on the actual costs of this massive repair bill, and it doesn't look to me like anybody around the place is looking at a way of prioritising that over other expenditure.
Sir Alan Reid: No, that is wrong. We have got the figures for the next three years. We've got a three-year plan, which has been submitted to the Treasury. It is looking out beyond the three years, where we don't have—or didn't have—the security of funding we are now planning on how to deal with those seven years.

Q60 Ian Swales: For my benefit and the Chair's, can you clarify: if you know this figure of 39%, does that mean you have a list of projects you need to do but haven't costed yet, or haven't you got a list?
Sir Alan Reid: No, we have a list of projects. We know exactly what they are; we just haven't costed it because some of this work will be done seven or eight years' hence.

Q61 Ian Swales: But you are an accountant, just like me, so you can cost things in today's money, can't you? You can give an idea—
Sir Alan Reid: I could say £50 million to you. And it may be £55 million or it may be £47 million.
Ian Swales: So £50 million, did you say?
Sir Alan Reid: It would be a good indication.
Chair: That is all we wanted.
Ian Swales: When we asked that 20 minutes ago—
Sir Alan Reid: I was trying to give the Chairman an accurate answer, rather than a ballpark one.
Ian Swales: I think the Chair was asking for, and used the expression, "ballpark figure". Thank you for the answer.

Q62 Mr Bacon: We had a ballpark figure four years ago, which was a backlog of £32 million, unless I have got the figure hideously wrong. I was there four years ago and I remember all of this. It sounds to me like you are saying there wasn't a lot of point in doing an enormous amount of work on costing in detail when you knew there was absolutely no possibility of getting the money; that was the whole problem with the previous funding system. Have I got that wrong?
Sir Alan Reid: No, you've got it right. Thank you.
Mr Bacon: So most of this conversation, as far as I can see from being there four years ago, is rather sideways, if I can put it that way, because it takes no account of the work we did four years ago that looked at the basic problem.

Q63 Fiona Mactaggart: But there is now a system. And, four years ago, this Committee, of which you were a member, Mr Bacon, said that the Victoria and Albert mausoleum would cost £3 million to repair.

Now we see that this year's report says, "We are trying to dry it out a bit, but it's not a high priority," but that is on the at-risk register of buildings of historic significance. I wasn't on the Committee then, but I am rather shocked at the complacency shown in the paragraphs on page 32 of your report in relation to that. What have you done to make sure that that building is secure for the nation in future, and what will be the cost of removing it from the at-risk register?
Sir Alan Reid: The paragraphs to which you refer tell you that we are doing the initial work to make the building dry and safe so that we can make a proper assessment of what the problems are. For many years, no one has properly diagnosed what the issue is. We need the building dry in order to work that out and to cost what the repairs will be. Like the rest of the Committee, I would love to do the whole of the property backlog straightaway, but we have limited funds. There is a Head of State to support as well as buildings and a mausoleum to maintain. We have to make priorities, and we have done that in the past. It may or may not—

Q64 Fiona Mactaggart: It seems to me that this Committee made a priority of that particular building four years ago. All that has happened are recent works to begin to dry it out. Am I not right?
Sir Alan Reid: You pointed it out. Whether you felt it was an absolute priority over the other activities of the monarchy, I don't know.

Q65 Fiona Mactaggart: The PAC Report of 27 April 2009, as its second conclusion, specified: "Work required to repair the Mausoleum, a monument of national importance, has been outstanding for 14 years and its condition is getting worse." Now, four years later, it has been outstanding for 18 years. Have you had discussions with the Department for Culture, Media and Sport? What is the plan? Frankly, after four years, while I understand that there has been a funding issue—
Mr Bacon: There was a financial crash in 2009 and the idea of giving extra money to the royal family was pretty low on people's list at the time.
Fiona Mactaggart: I am saying that this was identified as a priority. It was the second recommendation.
Mr Bacon: It wasn't the only one. There were lots of things in a dreadful state.
Fiona Mactaggart: It was the second recommendation of that Report, as you know, Mr Bacon.
Sir Alan Reid: Since 2009, we have had to reduce our expenditure by 16% in real terms. It is not possible to do everything at once.

Q66 Chair: Could I just draw you up on that? Expenditure has gone down because income has gone up. Expenditure has actually reduced by only 5%—that is right, isn't it? The total expenditure is down because income has increased by 11%.
Sir Alan Reid: The net cost to the taxpayer has gone down by 16%.

Q67 Chair: Yes, but out of that, cuts in expenditure—the efficiency side of it—is only 5%. The rest is income generation. That was how I read the papers.
Sir Alan Reid: Right. You would also have to understand the level of activity to come to that as a firm conclusion, but fair enough. I think you are implying that we reduced labour costs by 5% over that period.

Q68 Chair: No, not labour costs; all your expenditure is down by 5%. I accept that you have had pressures on things such as energy costs and so on, but to say that there has been a cut in expenditure—I wouldn't put it that way. What I said is that you have increased your income by 11%—good for you, and we will come back to how you have done that—but the real cut in expenditure is only 5%. Again, relative to other public sector organisations, that is not a massive ask. With any budget I have run, I always think you can get a couple of per cent. out a year without any harm at all, just by looking at it.
Sir Alan Reid: I think reducing the net cost to the taxpayer by 16% over that period is worth achieving.

Q69 Ian Swales: As you said earlier, the big item there is travel. I think I am right in saying that everything else has gone up, not down.
Mike Stevens: May I qualify that? Our hospitality has gone down 10% in real terms since 2007–08; travel has gone down by 24% in real terms.
Ian Swales: Sorry, 2007–08; okay. I was doing year on year.
Mike Stevens: Staff costs are down 6%. Our other costs have increased, but the reason for the increase in other costs is associated with the increase in recharges, as a result of increasing the proportion of costs through the establishment of shared services operations in finance and IT—costs that we are now able to spread. That is where the efficiencies have come in. We are able to spread across other related parties: the Royal Collection Trust and the other households. Costs and income have gone up in parallel.
Sir Alan Reid: To compare 2012–13 with the previous year is very misleading. It was the diamond jubilee year with lots of extra activity expected from us; Olympic year, with lots of extra activity. That is why we go to this longer period.

Q70 Nick Smith: I want to go back to utility costs, first, because it is a pretty chunky number—over £3 million—and, secondly, because it is something that all households are having to deal with at the moment. First, we have to acknowledge good work, particularly the introduction of meters. What were the gas and the electricity bills last year for Buckingham house?
Mike Stevens: I don't have that to hand.

Q71 Nick Smith: Can you let us know?
Mike Stevens: Yes.

Q72 Nick Smith: Given that energy companies are now offering deals to fix prices for the future, have you done that?

Mike Stevens: We have arranged our energy purchases through wholesale markets for several years, so we go through a broker. We have tested that and benchmarked it against Government procurement and feel that we have generally got good value. However, wholesale prices have gone up 45% or 50% over the last five years, but our prices have not gone up by more than that. They have gone up in line with wholesale prices.

Q73 Nick Smith: So you have not fixed prices. They have increased with the market.
Mike Stevens: As part of the wholesale market, we tend to buy during the year and operate on a three-year cycle. Prices are not necessarily fixed for the three years, but they are fixed for 12 months at a time.

Q74 Nick Smith: Okay. Like lots of people, I was shocked that the boilers in Buckingham palace had not been changed for 60 years. When are they going to be replaced?
Mike Stevens: As with all our projects, we have to prioritise. We try to eke out the useful life of our assets whenever possible. I expect that we would be planning to replace them within the next three to five years. It is, however, a major task and obviously it needs to be planned in conjunction with the reservicing of other parts and dealing with heating systems throughout the whole palace.

Q75 Nick Smith: Sure. I would have thought that it was a big project that requires working through carefully. You say that it will take between three and five years, but how much will it cost? What is the latest estimate?
Mike Stevens: We have not got so far as providing estimates, but if you want me to give you a ballpark figure, it will probably be in the region of £500,000 to £1 million.
Chris Heaton-Harris: Mr Smith is a big advocate of the Government's green deal and that sounded like a bit of a pitch.
Nick Smith: Winters can be very cold in Blaenau Gwent, so I am interested in the cost.

Q76 Mr Bacon: May I return to the question of property maintenance? In fact, my first question is about the royal art collection, because you mentioned that much of the income is used for its maintenance. Is that done with in-house curators and maintenance staff who are specialists in, for example, the maintenance of old-master paintings?
Sir Alan Reid: They are in house. They are employed by the Royal Collection Trust and its subsidiary.

Q77 Mr Bacon: So they are full-time, in-house staff.
Mike Stevens: Yes, and we do supplement within the Royal Collection Trust with the use of external conservators in pictures or furniture restoration.
Mr Bacon: Where required.
Mike Stevens: Wherever appropriate.

Q78 Mr Bacon: It is precisely that point that I wanted to come to in relation to the planning of the property maintenance programme, because it says on page 10 of your report that 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." Might you look at the balance between in house and external? If you have such a large maintenance backlog, there would presumably be a fairly sensible, economic and commercial case for having more specialist in-house staff with a programme of work stretching forward for many years.
Sir Alan Reid: Could well be.

Q79 Mr Bacon: So you would look at that.
Sir Alan Reid: As it happens, we are looking at that. We are in the middle of reorganising our property services area in anticipation of accelerating the amount of work that goes on.

Q80 Mr Bacon: The other question relates to what you might do in relation to increasing income from the property estate through increased visitor numbers. I remember from when we looked at the occupied royal palaces that obvious comparisons were made with the Tower of London, which is a royal palace, and with this building, the Houses of Parliament, which is also a royal palace—the Palace of Westminster—and Hampton Court, all of which had higher visitor numbers. There are obvious issues around the use of, for example, Buckingham palace as an official office and the Queen's official programme, but the same is true of the White House in Washington, which I happened to visit around the same time that we did our last Report, and it has higher visitor numbers, too. What scope is there for increasing the number of visitors to Buckingham palace and getting more income as a result?
Sir Alan Reid: I will let Mike Stevens answer in a second, but suffice it to say, I tried to go around the White House. It was far from easy in that you have to apply to your Senator or Congressman before you can get a ticket. In our case we applied to the ambassador. The computer system was broken down and it was not possible to go round. The White House also operates not to make a surplus whereas our opening of the palace is absolutely to make a surplus. We also visited, at the invitation of the previous Chairman of the Public Accounts Committee, this palace here. It does not operate to make a surplus either, so it was not all that great a comparison.

Q81 Mr Bacon: But in terms of bodies through the door, I think the Tower of London is 2 million visitors and this palace has 600,000, which is higher than Buckingham palace.
Mike Stevens: It is worth remembering that Buckingham palace is open for the summer months. Over the past five years, we have increased the period of the public opening from 63 days to 78 days last year. That has resulted in an increased contribution from the facilities management charge from £1.8 million to £3.7 million, so an additional £1.9 million a year is going through to the maintenance of the palaces. We looked at—we submitted evidence at the

last hearing about—a winter opening of the palace. We felt that that was not commercially viable, so what we have done is open the palace to private tours between September and April. Last year we ran just under 120 tours—

Q82 Mr Bacon: How do private tours work?
Mike Stevens: They are private because there are no other visitors having a free-flow experience. They are guided around the palace. They pay a premium. But private tours are available to all members of the public in groups and are obviously very popular.

Q83 Mr Bacon: This Palace has a work programme. Obviously the parliamentary Estate is big with a lot of work going on. My office is very near one of the galleries and I am always fighting my way past tourists to get into it, but it seems to work. If you are open 78 days a year, that leaves 287 days a year when you are not open. We are open here for far more days a year. We get far, far more visitors—probably double the number—as a result. Are you sure there isn't scope for further increasing the number of days per year that you are open? What led you to conclude that opening in winter would not be commercial?
Mike Stevens: That is it. The comparison is not necessarily the best one to make with here because the objectives are different. The objectives for opening the Palace of Westminster are not to make a commercial profit. So we could increase the visitor numbers at the palaces, but not generate any additional profit. The key to the success of the summer opening each year has been the excellent exhibitions that we have mounted each year. This year it was the coronation exhibition. Last year it was diamonds and the year before that it was the Duke and Duchess—

Q84 Chair: Do you run the Sandringham palace opening?
Mike Stevens: No we don't. That is run separately by the private estates.

Q85 Chair: That to me, as a visitor to it, seems to be a resounding commercial success. Is that not something you could think about talking to them about? They not only open the house; they have all sorts of other things. I know it is completely different and they are massive grounds and things like that, so it is a slightly different kettle of fish, but from all one can see as a visitor going round, it undoubtedly makes money.
Sir Alan Reid: We run the Sandringham opening as well, but in a Privy Purse capacity.

Q86 Chair: Okay, so I can ask you this. How come that has all the indications of being a commercial success whereas you are finding it rather difficult at Buckingham palace?
Sir Alan Reid: Well, Buckingham palace is a massive commercial success and we would love to open it for more days but there are restraints on what we can do. Sandringham works the way you have seen it work because the Queen is not there very often. She is only really there in December and January, so it is easy enough to open it for the rest of the year. Buckingham palace is much more difficult, because of the number of activities that go on there. There is a big set-up cost for our summer opening, in terms of protecting the works of art from these—something like—550,000 visitors, as we had this summer, over the 75 days that we referred to. It is not easy to do set-up just for the weekend, when Buckingham palace is empty of members of the royal family.

Q87 Mr Bacon: That is a higher number than I remember. Can you send us a bar chart or a table showing us the visitor numbers to Buckingham palace each year and how that has increased over a timeline?
Sir Alan Reid: Since we last appeared here, it has increased fairly significantly.

Q88 Mr Bacon: Could you do that over a long timeline? Perhaps the past two decades, if you have the information.
Sir Alan Reid: We can probably do it from when it first opened.
Mike Stevens: From 1993.
Mr Bacon: That would be very helpful.

Q89 Chair: Last time you came, there was also considerable discussion about the royal train. You were going to consider its future and have a review on whether it was providing effective value for money. Where have you got to on that one?
Sir Alan Reid: I think the last time we came here on royal travel was 2001.
Mr Bacon: Yes, it was.
Sir Alan Reid: We carried out a review in 2002–03 as to whether we could save costs on the royal train. We implemented a number of changes, such as eliminating the amount of rolling stock and putting the contract out to tender and such like, which has reduced the cost.

Q90 Chair: Have you recently put it out to competitive tender?
Mike Stevens: We put the royal train out to competitive tender in 2008–09. As a result of that tender, we reduced the maintenance costs by 9% in real terms, mainly through extending the interval of maintenance for some of the rolling stock. We are currently working with Network Rail, which undertakes tenders of this nature quite regularly, to obtain assistance for retendering the maintenance in the next 12 months.

Q91 Mr Bacon: It says in the Report, in paragraph 3.19, that you awarded the contract in April 2009. Was that a five-year contract?
Mike Stevens: Yes, it was.

Q92 Mr Bacon: Was it with a brand new piece of rolling stock, so that therefore, the maintenance—
Mike Stevens: No, it was all the existing rolling stock. It was five years, because there was investment from DB Schenker, which is the company that currently maintains it. They made investment, had to take on additional staff, and they had transition costs. We agreed that that was a reasonable period for us to work

together with them to look at savings and to achieve, as I say, a 9% reduction in real terms.

Q93 Chair: You have achieved a 9% reduction by cutting the servicing. You have cut the frequency of servicing.
Mike Stevens: One of the key things is obviously not to compromise safety, but we recognise that—

Q94 Chair: And to preserve the asset.
Mike Stevens: Absolutely. So we looked at the intervals and at the nature of the services that were undertaken previously. As a result of making adjustments to that maintenance schedule, we were able to reduce some costs.

Q95 Chair: Have you looked at something more radical with the train, in the way that you looked at air travel? Is it sensible to carry on having a royal train? Is it a sensible way forward?
Sir Alan Reid: I think it is, for the time being. The rolling stock is very old indeed, and it probably does not have too many more years of life.

Q96 Chair: How old is it, out of interest? I haven't a clue.
Sir Alan Reid: I think it is from 1970, if not older. The décor is very G Plan, which is either '60s or '70s. It is not luxurious by any stretch of the imagination, but it does offer a very safe, secure and effective way—particularly as the Queen has got older—of having her go up the country in order to do engagements first thing the next morning.
Chair: It is probably not very comfortable, if it is a 1970s train.
Sir Alan Reid: Well—

Q97 Chair: I think the modern ones are slightly more comfortable. Are you telling us that you would think twice about renewing it?
Sir Alan Reid: We are only really saying that we will continue with it as long as the current rolling stock is working. It would then be a major decision whether to invest in a new royal train. I think the numbers would be quite staggering.

Q98 Chair: Do you have an assessment of how long this 1960s or 1970s train will last?
Sir Alan Reid: I think it probably has five to 10 years' life left in it.

Q99 Chair: So 10 years' time. Is it still sensible to keep it on for another 10 years?
Sir Alan Reid: Yes. It mainly travels overnight, and that is one of the ways that it happens to be secure and cause less disruption.
Chair: It is noisy as well.
Sir Alan Reid: It stops for a major part of the journey overnight, so that people can sleep properly. It is very slow, because it is old rolling stock. There will come a time when it does not work properly anymore, but we are not at that stage yet.

Q100 Nick Smith: I just want to go back to pay and employment. Sir Alan, we have heard from the Chair how some of your top team have had some very good pay increases. You have kindly agreed to let us know how many of your staff earn more than £50,000. Can you let us know what percentage of your overall staff earn more than £50,000? I am interested in how top-heavy your staff is. Has the pay freeze for those earning more than £50,000 affected your ability to retain some of those experienced members of staff? What has the turnover been like of those earning more than £50,000?
Sir Alan Reid: The turnover in the past five years has been very low, because of the recession and because there are not other jobs to go to. I would like to think that it is also because we are a reasonable employer. We will let you have a note on how many we have earning more than £50,000. We have not noticed that the pay freeze has led to them leaving. I will also add, partly because the media reported it incorrectly over the weekend, that our median pay is £25,000 for staff generally.
Mike Stevens: That's right.
Sir Alan Reid: The mean salary is £32,000. The middle person is earning about £32,000.

Q101 Nick Smith: Okay. I would still like to see that table, if we could. Does the household employ any people on zero-hours contracts?
Sir Alan Reid: No.
Nick Smith: Okay, good.

Q102 Chair: Can I just ask about that? The household does not, but you employ a lot of temporary staff, do you not? It's to do with events.
Sir Alan Reid: We have temporary staff in particular for functions and receptions.

Q103 Chair: Yes. Are they directly employed by you or are they employed through another mechanism?
Sir Alan Reid: It varies, but a lot of them are directly employed by us.

Q104 Chair: But if there is not an event or a reception, there is no work?
Mike Stevens: Some of these casual employees could be people who have jobs as wardens in the royal collection, so they work extra hours to attend functions.

Q105 Mr Bacon: Correct me if I am wrong, but when I was last at a garden party, getting my cup of tea and sandwich, I asked about this. The person who very kindly gave me my cup of tea and sandwich worked for a catering company that had a contract with you. Presumably, the following day, when there was not a garden party, that person would have been working for the catering company, giving someone else a cup of tea in a different venue. That seems to be a sensible way of doing it.
Sir Alan Reid: Yes. The garden party contract is—

Q106 Mr Bacon: By the way, it was very nice and the apple juice is of particularly high quality.
Sir Alan Reid: Good, I'll report back.

Q107 Chair: Let us just bottom this out. There have been reports in the press—this gives you an opportunity to say whether they are correct—that there are between 350 and 400 staff who work at the palace on events like this and who you would not include as part of your staffing complement.
Sir Alan Reid: On garden parties?

Q108 Chair: It is a press reference, so it may well be wrong. Does the figure not mean anything to you? Here is the reference: "Around 350 part-time workers drafted in to cover the opening of the Queen's London home this summer".
Sir Alan Reid: Yes, but they were employed by the Royal Collection Trust, not by the royal household and are nothing to do with the Sovereign Grant.

Q109 Chair: So the Royal Collection Trust—
Sir Alan Reid: Manages the opening of Buckingham palace and Windsor castle.

Q110 Chair: Are the people employed there on zero-hours contracts?
Mike Stevens: The staff who were employed for this year's summer opening of Buckingham palace were employed on a contract that was described—it may be semantics—as "as and when required". The reason that they were put on those contracts was to give us flexibility from the point of view of rostering in what is a very busy period. That is normally because we like to be able to extend the hours during the period of the summer opening. All of those staff worked in excess of 35 hours a week during the summer opening.

Q111 Chair: But they were not allowed to work for any other employer?
Mike Stevens: Yes, they were. They could have taken employment elsewhere if they chose to. Some of them did.

Q112 Chair: If they all worked in excess of 35 hours a week, why could you not guarantee them work, rather than putting them on this rather insecure mechanism of—technically—a zero-hours contract?
Mike Stevens: Technically, but in practice, it has always been that they have—
Chair: But why? I can understand the flexibility of rostering, but I think you can cope with that. You can have an annualised hours contract or something like that that gets you over that. But it is very insecure to think that you are not sure next week whether you are going to get any work at all, which is what a zero-hours contract implies.
Mike Stevens: The majority of the staff employed are students from university. Sometimes we have uncertainty about when they may be returning to university. Some of them will go in early September. There is a whole range of contracts that they are employed on. Sometimes, people will come to us during the summer for six to seven weeks. Some of the students will be with us for the whole duration of the summer opening, and slightly beyond. It has provided a flexible approach. We have already started recruiting for next year's summer opening—it takes that long to recruit 300-odd people. The contracts that they will be given are 35 hours minimum, plus all the benefits that the people employed this year got.

Q113 Chair: That is very welcome. So you are shifting from the technically zero-hours contract to a temporary contract of 35 hours minimum a week. Is that what you are telling me?
Mike Stevens: The people employed for next year's summer opening will be on a guaranteed 35-hour week.

Q114 Chair: Are they on minimum wage?
Mike Stevens: They are certainly paid above the minimum wage.

Q115 Chair: Well above minimum wage?
Mike Stevens: Yes, I think they are well above.

Q116 Nick Smith: Mr Stevens, you used the phrase, "people employed as and when required". What do you think the difference is between "as and when required" and zero hours?
Mike Stevens: I think that zero-hours contracts, as far as I understand, bind you to a particular employer and don't give you any flexibility to work elsewhere. In all other regards, the staff we employed during the summer were given the same benefits—lunches and holiday pay—as other members of staff. The only differentiation was purely on the flexibility to be able to increase hours from what we expected it would be—35 hours—to up to 40 to 45 hours; many of our staff worked that over the summer.

Q117 Chair: I am delighted to hear that you have changed from what is generally otherwise seen as a difficult way—if you can't give people the security of knowing they will have some work and they are tied to you.
I have a final set of questions. You get the Sovereign Grant. You have said that it gives you greater security. I am a bit puzzled by this. In 2015–16—one assumes you are negotiating for that now—theoretically, the Government of the day could decide, if the squeeze was on public expenditure, which was what happened when you got squeezed in the early part of this century, that it could go down. So I don't quite see why you feel you have better security now. I can see why you have flexibility, because you have the merging of three budgets, but I don't see how you have better security.
Sir Alan Reid: What would happen in 2015–16 is that the Royal Trustees could reduce the percentage of Crown estate revenue, but we couldn't go down on the previous year's grant.

Q118 Chair: So you have had a guarantee? Is it cash or real?
Sir Alan Reid: Cash.
John Thorpe: Cash.

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Q119 Chair: There are a whole load of people who would give their bottom dollar for that in the public sector.
If we look in the memorandum from the NAO, you get money from the Sovereign Grant, but according to figure 3 on page 13 there are a whole lot of other sources of income. We will leave out security and police costs, because I understand the sensitivities around that figure, but if you were to add up the others, what would that come to as a total?
Sir Alan Reid: Probably somewhere between £4 million and £5 million.

Q120 Chair: Between £4 million and £5 million. So that is added to your base. I never knew there was an annuity to the Duke of Edinburgh. That has always been there, has it?
Sir Alan Reid: Yes.

Q121 Chair: Does that move in time, or does it stay the same?
Sir Alan Reid: It has been the same for the past 20 years, or maybe longer.

Q122 Chair: How did it ever get to be that? Has it always been that?
Sir Alan Reid: It used to be, at the beginning of the reign, that all members of the royal family received a civil list annuity from Parliament. In 1992, although the law was not changed, the Queen started repaying those for everyone except the Duke of Edinburgh. When the Sovereign Grant was legislated through Parliament, those civil list payments to other members of the royal family were done away with, but they have actually not existed in real terms since 1992.

Q123 Chair: Okay. Presumably, even in the private palaces, the security and police costs associated with the Queen and her household are met by the state, or are they met by the Queen from her private income?
Sir Alan Reid: They are paid by the Home Office for the police.

Q124 Chair: They are all paid throughout. So when the police officer stopped Prince Andrew, or whoever it was, that was the Home Office?
Sir Alan Reid: I think that was the Metropolitan police royalty protection.

Q125 Chair: The final thing I have a difficulty with in this area is how you determine whether something is an item of expenditure—how you draw the boundaries around expenditure and determine what should be an item of expenditure met by the Sovereign Grant, or by this other £4 million or £5 million—or whether it should be met by the Queen privately, from the Duchy of Lancaster or one of these other budget heads you have in your control.
Sir Alan Reid: We have a document called a Treasury finance manual, which tries to take every conceivable situation and give a guideline as to who should pay in those circumstances. We update that every year. It was reviewed by the National Audit Office this year. Our external audit committee review it annually to see whether there is anything different in the way we are performing that should lead to a different allocation. We anticipate that next year the National Audit Office would also review it. So it is really set out in black and white how to make those decisions between private, taxpayer or indeed any of these other departments.

Q126 Chair: I hear that, because it is really important to get that right; I am sure you would agree with that. You get stuff in the press—it tends to be Prince Andrew. The most recent I saw was last week—you probably picked it up too—about his trip to Indonesia and Vietnam, coming back via the States. I have here an Associated Press report and a *Scotsman* report. It looked as though, in a three-week trip, there was a little bit of work that was very important public work, but there was quite a lot of holiday—nobody denies him the right to have his holiday—and quite a lot of family time. That, again, is really important, but how do you ensure in that that it is right for the state to pick up the bill for his air fare and expenses—beyond the security, which I accept—whatever he is doing?
Sir Alan Reid: Mike will go into some detail on that specific trip. It is worth bearing in mind that no member of the royal family travels abroad at the taxpayer's expense unless the visit is approved by the Royal Visits Committee, which is a Cabinet committee with representatives at Downing street, the Foreign Office, the Department of trade and industry and the royal household on it. So the particular reference to Indonesia and Vietnam was approved and requested by the Royal Visits Committee. They choose which member of the royal family they would like to make the visit. There was that element of authorised trip.

Q127 Chair: He did three things. He opened a British embassy, he opened a tourism fair and he went to a dinner.
Mike Stevens: Yes; if I may—
Chair: In three weeks.
Mike Stevens: The element of the trip that related to Indonesia was the official visit that was approved by the RVC. The costs of that were met by the Sovereign Grant. The other elements of his trips—and there were some where he undertook some official engagements, but those were not approved by the RVC—were met by other organisations, including the Royal United Services Institute, where he was fulfilling some engagements, and he met a proportion of the overall travel costs privately. So the costs of this trip were really split three ways: between the Royal United Services Institute, private, and the public.

Q128 Chair: Are you satisfied, Treasury, that that was fair? Do you get that?
Marius Gallaher: We wouldn't look at the specific travel costs. We are fully confident that they are allocated properly by the royal household.

Q129 Chair: Why are you confident? What makes you confident?
Marius Gallaher: Because we have a good working relationship. They give us their figures. They explain

them to us, and we are satisfied that they would do that—

Q130 Chair: But you don't bother to monitor.
Marius Gallaher: We don't go into monitoring the royal household expenditure in that detail.

Q131 Chair: Did the Treasury question any of the budget allocations?
Marius Gallaher: When they present the budget to the Treasury, and I am aware of this, we go through their annual budget in—

Q132 Chair: Did you change anything?
Marius Gallaher: I am not aware that we did, but if we have I will give you a note.

Q133 Chair: Could you point to three ways in which your monitoring has had an influence on the way the Sovereign Grant and other public moneys are spent?
Marius Gallaher: I would give you a note on what way we influence the budget.

Q134 Chair: I do think in the new settlement your role is not just tick-box, but rather more important.
Marius Gallaher: No, we do have a challenging discussion with the royal household over their budget.

Q135 Chair: Well, I would like to see evidence of that. I appreciate you are not here to answer but I would like a note from Treasury—with some further questions that we have from the NAO to supplement it.
Sir Alan Reid: Could I add that the Treasury officer of accounts attends our audit committee, as well as receiving the monthly management accounts? They are very hands-on.
Chair: Okay. I would like to know if you change anything.

Q136 Austin Mitchell: Prince Charles said that the cost of meeting freedom of information requests was running at £100,000 a year. I am not sure whether he was saying that about his own freedom of information requests as Prince of Wales, or whether he was taking on the burden of dealing with all the freedom of information requests for the royal family. How much do freedom of information requests cost, and who pays for them?
Sir Alan Reid: I think it is about £200,000 a year that we spend, of the Sovereign Grant, looking after freedom of information requests.

Q137 Austin Mitchell: That is the total royal family?
Sir Alan Reid: Yes, I think it is.

Q138 Nick Smith: Just a quick one. I was looking through the NAO Report, on page 10, and the reference to royal finances. There is a bullet point about income from the Duchy of Lancaster. I am just trying to check the wording here, and—I am not sure—it doesn't appear to be part of the Sovereign Grant. Is that right?
Mike Stevens: No, it is not.

Q139 Nick Smith: So how much income was there in 2012–13 from the Duchy of Lancaster?
Sir Alan Reid: About £12 million. The Duchy of Lancaster accounts are laid in the Library of Parliament, and so the number is public and readily accessible.
Chair: Okay; thank you very much indeed. We look forward to engaging with you over the future years.

Written evidence from the Deputy Treasurer to The Queen

The Chair of the Committee asked in Q11 whether the Royal Household had a wage freeze for its staff in 2012–13. Sir Alan Reid advised the Committee that the Royal Household did have a wage freeze in 2012–13 and that it applied to everyone above £21,000 per annum. In reviewing the transcript of the PAC Hearing it appears that there may have been a misunderstanding and the note below aims to clarify the Royal Household's pay awards since 2010–11.

Section 3.10 of the Memorandum on The Sovereign Grant dated October 2013 prepared by the National Audit Office explained that "In 2010–11 the Household introduced a pay freeze for all staff in excess of £50,000 which it extended into 2011–12 and widened to include all staff on salaries in excess of £21,000."

The Royal Household has recognised the need for continued pay restraint and the annual basic pay awards over the last 4 years have accordingly been frozen at levels below the annual cost of living as follows:

2010–11	No basic pay increase for all staff; and No progression payment for staff earning £50,000 or over
2011–12	No basic pay increase for staff earning £21,000 or over
2012–13	No increase for the Private Secretary to The Queen and the Keeper of the Privy Purse 2% increase in basic pay for all other staff with 1% financed through an underlying reduction in headcount
2013–14	1% increase in basic pay for all staff

Lieutenant Colonel Sir Andrew Ford, a member of the Lord Chamberlain's Committee received a pay increase in excess of 2% as a result of his increased responsibility as the Accountable Manager for Royal Travel and a reduction in headcount in the Royal Travel Office.

The other two members of the Lord Chamberlain's Committee to receive a pay increase in 2012–13, the Rt Hon. The Earl Peel and Air Marshal Sir David Walker, received a basic pay increase of 2% in line with that awarded to other Household Staff.

21 October 2013

NOTES REQUESTED

Question no.	*Member requesting*	*Witness*	*Extract from transcript*
Q17	Nick Smith	Sir Alan Reid	**Q17 Nick Smith**: I have a couple of questions. Related to the last point, I understand that there was a pay freeze for staff earning over £50,000 a year. How many staff did that affect? A17 The number of staff earning over £50,000 in each of the last 3 years is as follows: 2010–11 53 2011–12 53 2012–13 53
Q70–1	Nick Smith	Mike Stevens	**Q70 Nick Smith**: I want to go back to utility costs, first, because it is a pretty chunky number—over £3 million—and, secondly, because it is something that all households are having to deal with at the moment. First, we have to acknowledge good work, particularly the introduction of meters. What were the gas and the electricity bills last year for Buckingham house? A70 The Electricity and Gas bills for Buckingham Palace, including the Royal Mews, for 2012–13 were as follows: Electricity—£312,000 Gas—£462,000

Question no.	*Member requesting*	*Witness*	*Extract from transcript*
Q86–88	Richard Bacon	Sir Alan Reid	**Q86 Chair:** Okay, so I can ask you this. How come that has all the indications of being a commercial success whereas you are finding it rather difficult at Buckingham palace? *Sir Alan Reid:* Well, Buckingham palace is a massive commercial success and we would love to open it for more days but there are restraints on what we can do. Sandringham works the way you have seen it work because the Queen is not there very often. She is only really there in December and January, so it is easy enough to open it for the rest of the year. Buckingham palace is much more difficult, because of the number of activities that go on there. There is a big set-up cost for our summer opening, in terms of protecting the works of art from these—something like—550,000 visitors, as we had this summer, over the 75 days that we referred to. It is not easy to do set-up just for the weekend, when Buckingham palace is empty of members of the royal family. **Q87 Mr Bacon**: That is a higher number than I remember. Can you send us a bar chart or a table showing us the visitor numbers to Buckingham palace each year and how that has increased over a timeline? *Sir Alan Reid:* Since we last appeared here, it has increased fairly significantly. Q88 Mr Bacon: Could you do that over a long timeline? Perhaps the past two decades, if you have the information. *Sir Alan Reid:* We can probably do it from when it first opened. *Mike Stevens:* From 1993. A86–88 Analysis of Buckingham Palace Summer Opening Paid Visitor Numbers attached as Appendix 1
Q100	Nick Smith	Sir Alan Reid	**Q100 Nick Smith**: I just want to go back to pay and employment. Sir Alan, we have heard from the Chair how some of your top team have had some very good pay increases. You have kindly agreed to let us know how many of your staff earn more than £50,000. Can you let us know what percentage of your overall staff earn more than £50,000? I am interested in how top-heavy your staff is. Has the pay freeze for those earning more than £50,000 affected your ability to retain some of those experienced members of staff? What has the turnover been like of those earning more than £50,000? *Sir Alan Reid:* The turnover in the past five years has been very low, because of the recession and because there are not other jobs to go to. I would like to think that it is also because we are a reasonable employer. We will let you have a note on how many we have earning more than £50,000. We have not noticed that the pay freeze has led to them leaving. I will also add, partly because the media reported it incorrectly over the weekend, that our median pay is £25,000 for staff generally. *Mike Stevens:* That's right. *Sir Alan Reid:* The mean salary is £32,000. The middle person is earning about £32,000. A100 The number of staff earning over £50,000 in each of the last 3 years as a proportion of the total number of staff paid out of the Sovereign Grant is as follows: 2010–11 10.6%

Question no.	*Member requesting*	*Witness*	*Extract from transcript*
			2011–12 10.5% 2012–13 10.6%

APPENDIX 1

BUCKINGHAM PALACE SUMMER OPENING—PAID VISITOR NUMBERS 1993–2013

Year	*Start*	*End*	*No of Days*	*Visitor no's '000*	*Daily Ave*
1993	07 August 1993	01 October 1993	56	379	6,768
1994	07 August 1994	02 October 1994	57	420	7,368
1995	07 August 1995	28 September 1995	53	413	7,792
1996	08 August 1996	30 September 1996	54	397	7,352
1997	08 August 1997	05 October 1997	59	313	5,305
1998	06 August 1998	04 October 1998	60	329	5,483
1999	06 August 1999	03 October 1999	59	300	5,085
2000	06 August 2000	01 October 2000	57	300	5,263
2001	04 August 2001	30 September 2001	58	311	5,362
2002	04 August 2002	29 September 2002	57	335	5,877
2003	31 July 2003	28 September 2003	60	314	5,233
2004	30 July 2004	26 September 2004	59	293	4,966
2005	29 July 2005	27 September 2005	61	264	4,328
2006	25 July 2006	26 September 2006	64	397	6,203
2007	28 July 2007	28 September 2007	63	358	5,683
2008	29 July 2008	29 September 2008	63	392	6,222
2009	26 July 2009	30 September 2009	67	396	5,910
2010	27 July 2010	01 October 2010	67	413	6,164
2011	23 July 2011	03 October 2011	73	605	8,288
2012	31 July 2012	07 October 2012	78	514	6,590

Written evidence from HM Treasury

1. I was sorry to learn that you had expected a Treasury witness at the PAC hearing on 14 October. May I explain that I was not there because, after an injury, I was physically unable to get to the Palace of Westminster (though I am working remotely). I had understood that the Committee chose that the hearing should go ahead anyway, and the Royal Household were also anxious not to keep the Committee waiting.

2. I do apologise for any misunderstanding or inconvenience this may have caused. In the circumstances I hope you will take this letter as a response to your letter of 17 October to Sir Nick Macpherson.

3. Turning to the substance of the hearing, I should begin by making it clear that the Treasury recognises that our responsibilities changed with the introduction of Sovereign Grant. As with any item of expenditure on the Treasury vote, I monitor spending financed by the grant and establish that plans for its future use are affordable. I also check that the Household's use of its flexibility is within the boundaries of the Sovereign Grant Act.

4. This process does not extend to vetting every item of expenditure, for that would deny the Household the considerable freedom parliament awarded the Household under the Act. Instead I seek to satisfy myself that the Household's systems are up to scratch. Attending the Audit Committee gives me good insight into this aspect of the Household's business, as the Keeper mentioned. I also rely on the C&AG as auditor to identify any items of expenditure that appear to be questionable. These are of course all standard techniques, as NAO's paper explains (para 3.8).

5. At question 57, you asked about Treasury oversight of the Household's plans for repairs and renovations (question 4 in your letter). I am satisfied that the Household has adequate plans for the next three years under this head, allowing for the unavoidable uncertainties of planning this programme, where essential jobs can become pressing without warning. Moreover I find it appropriate that the Household is establishing its longer term repair needs so that it can plan a 10 year programme of property work. I understand that the Household plans to write to you with more information about this when the condition survey is complete and the ten year works programme has been agreed, probably in early 2014.

6. At question 128, you asked about an aspect of the Household's travel programme. This is a level of detail within the Household's competence to decide. I have however satisfied myself that the system of control described by Mr Stevens is adequate and effective, combined with the safety net of NAO audit.

7. At question 131, you asked about Treasury oversight of the Household's budget (questions 1, 2 and 3 in your letter). I always discuss the budget with the Household before the year starts and then talk over progress against the budget, using the monthly management accounts, several times in the course of the year. The agreed changes to the budget have been switching allocations such as using savings on the travel budget to enable more spending on property maintenance.

8. These changes are so modest largely because the relationship I operate with Household is one of no surprises so that business may proceed efficiently. Among the areas we have also debated, often more than once, are the cost of the Royal Family's visits programme, numbers of staff, plans for repairs and renovations, reserves policy and so on.

9. I should of course be happy to answer any further questions the Committee may have about the Treasury's working relationship with the Royal Household. I believe it is open, effective and businesslike, as envisaged in our memorandum of understanding.

Paula Diggle
Treasury Officer of Accounts

21 October 2013

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