

Maintaining the Royal Palaces



**Report by the
Comptroller and Auditor General**

**The Department for Culture,
Media and Sport**

Maintaining the Royal Palaces

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John Bourn
Comptroller and Auditor General

National Audit Office
24 May 2000

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Executive summary

1 This report is about the maintenance of the Occupied Royal Palaces, and is the first under new arrangements that provide for the National Audit Office to have direct access to the records of the Royal Household. Property services are funded mainly by a grant-in-aid from the Department for Culture, Media and Sport (the Department), which in 1998-99 totalled £15.8 million. We focused on the largest element of the grant-in-aid, major property maintenance (projects over £2,500), which cost £7.2 million.

The Occupied Royal Palaces

Buckingham Palace
 Buckingham Palace Mews and Gardens
 St James's Palace
 Clarence House and Marlborough House Mews
 Kensington Palace – residential areas
 Hampton Court Mews and Paddocks
 Windsor Castle
 Windsor Castle Royal Mews
 Windsor Home and Great Parks – some buildings

How the work is organised

2 While the Department have ultimate responsibility for the maintenance of the Occupied Royal Palaces and are accountable to Parliament for the grant-in-aid, day to day management and operating responsibility rests with the Royal Household. The Royal Household took on this work in 1991 and have a contingent of professionally qualified staff to do it – they also draw on outside professional expertise as necessary (Paragraphs 2.2-2.4).

3 The Royal Household have a comprehensive works programme, revised annually and updated monthly, reflecting their operational and other requirements, including the results of detailed condition surveys of each palace by outside consultants. The Department employ a firm of property and construction consultants to conduct an independent review of the Royal Household's plans as these are the basis on which they decide the level of grant-in-aid (Paragraphs 2.5-2.8).

4 To get maximum value for money it is important that work is awarded to outside contractors on the basis of competition. We found that almost all the Royal Household's work has been competitively tendered, and that for each of the last five years all of their contracts over £25,000 have been competed. We looked in

detail at 16 of the larger projects and found that the Royal Household had accepted the lowest tender in all but two cases, where higher quality had been the deciding factor (Paragraphs 2.10-2.12).

The costs and timing of maintenance work

5 Since the Royal Household took over the management of property services in 1991 the amount of the annual grant-in-aid has fallen from £29 million to £15.8 million – and the major project maintenance element has fallen from £19 million to £7.2 million at 1998-99 prices. Over this period the Royal Household have largely cleared the backlog of maintenance that they inherited, and the condition surveys that they commission provide a check that there is not a significant maintenance backlog. The Department also use their independent consultants to seek assurance that there has not been a failure to undertake necessary work, although the Department do not specifically require them to consider whether there is a maintenance backlog (Paragraphs 3.7-3.10).

6 The Royal Household have performance indicators which focus on whether they deliver projects within the cost they expected when they let the contracts, and they publish their achievements in their annual report. They have mostly met or exceeded their targets over the last five years. However, in focusing on projects over £25,000 they exclude some 30 per cent (by value) of their work from their published performance information – although they do monitor lower value work closely and report progress on it to the Department (Paragraphs 3.12-3.16).

7 Overall, since taking over the management of property services, the Royal Household have contained their grant-in-aid expenditure within the limits set by the Department. There have been cost variations and delays on individual projects – of the 14 completed projects we looked at, there has been a cost increase of £5,000 or delays of over a month on six. The two main causes were: structural work identified once projects started and areas were opened up; and decisions to add minor maintenance work to projects which could otherwise have been carried out separately, to minimise disruption to the palaces. It is important to recognise that the palaces are historic buildings making it particularly difficult to determine the extent of work required until existing surfaces have been removed. Also, the palaces are working buildings in daily use, placing constraints on when work may be carried out (Paragraphs 3.11, 3.17 and 3.18).

8 While the grant-in-aid is the principal source of funding, another, shown in the published grant-in-aid accounts, is the Royal Collection Trust (which publishes its own annual report and accounts). The Trust's revenues include receipts from entry charges to Windsor Castle precincts. The status of these receipts is being

considered by the Department. However, the Royal Household have said that the net surplus from charges for entry to the Castle precincts will, under an agreed formula, continue to be used for property services – meeting costs which would otherwise be met from the grant-in-aid. Following observations we made during our work, the Department have now revived their arrangements for verifying the amount involved (Paragraphs 3.2-3.6).

How the quality of the work is controlled

9 In carrying out their property maintenance work the Royal Household work to standard specifications prepared by the Royal Institute of British Architects, and liaise with English Heritage. Our test check on ten projects where scheduled monument or listed building clearance was required confirmed that the necessary clearances had been obtained. We also confirmed that the Royal Household ensure that work is completed to the required standard before paying for it (Paragraphs 4.2-4.6).

10 The Royal Household have not generally carried out post-project reviews, but have recently introduced a review process which is being applied to a selection of projects some 9-12 months after completion. They also seek assurance about maintenance standards from the condition surveys they commission (Paragraphs 4.7-4.9).

Conclusions and recommendations

11 The new arrangements providing for the National Audit Office to have access to the accounts and records of the Royal Household worked well. We were given every assistance by the Royal Household and unrestricted access to the records we asked to see.

12 Our overall conclusion is that the Royal Household's property maintenance programme is well organised. There are strong arrangements in place for reviewing maintenance needs and standards, and for setting priorities and measuring achievements. Virtually all of the work is awarded to contractors following competition. And the Department, who provide most of the money, use independent experts to review the Royal Household's plans. Together these features point firmly towards the achievement of value for money. There have been cost and time variations on some projects, but overall the costs of the maintenance programme are very close to those budgeted.

13 Our recommendations below relate primarily to ways in which the Department monitor the Royal Household's performance:

Our recommendations

Recommendation 1 The Department should ensure that each year they have sufficient information to satisfy themselves about the amount available from Windsor Castle precincts receipts for property services.

Recommendation 2 Although the Royal Household have now largely cleared the maintenance backlog they inherited, the Department should seek explicit assurance from their independent consultants that, in view of the reduced maintenance spend, necessary maintenance work is not being overlooked.

The Department have agreed in future to ask their independent consultants to comment on any significant areas of remedial work, based on the quinquennial surveys.

Recommendation 3 The Department and the Royal Household should consider whether the suite of performance indicators already published in the Royal Household's annual report could usefully be complemented – in particular by covering performance on the large number of small projects.

The Department and the Royal Household have agreed to consider whether information already collected can be converted into a performance indicator for jobs under £25,000.

Part 1: What we did

Introduction

1.1 This report is the first under new arrangements that provide for the National Audit Office to have access to the records of the Royal Household in relation to the grant-in-aid for the upkeep of the Royal Palaces. The report focuses on property maintenance.

1.2 Management responsibility for the upkeep of the Occupied Royal Palaces (Figure 1) has rested with the Royal Household since 1991. The work is funded by a grant-in-aid from the Department for Culture, Media and Sport (the Department) which in 1998-99 totalled £15.8 million. The Royal Household produce annual accounts for the grant-in-aid, currently audited by accountants KPMG.

The Occupied Royal Palaces covered by the grant-in-aid

Figure 1



- Buckingham Palace
- Buckingham Palace Mews and Gardens
- St. James's Palace
- Clarence House and Marlborough House Mews
- Kensington Palace - residential areas
- Hampton Court Mews and Paddocks
- Windsor Castle
- Windsor Castle Royal Mews
- Windsor Home and Great Parks - some buildings

1.3 Responding to recommendations made in April 1998 by the Committee of Public Accounts, the Government agreed arrangements that allow the National Audit Office direct access to the records of the Royal Household insofar as they relate to expenditure financed by the grant-in-aid. The background to this decision and the details of the new arrangements are set out in Appendix 1. In accordance with these arrangements we contacted the Department in June 1998 to arrange to discuss with KPMG their audit plan for 1998-99. Our fieldwork for this study started in July 1999 when KPMG had completed their 1998-99 audit.

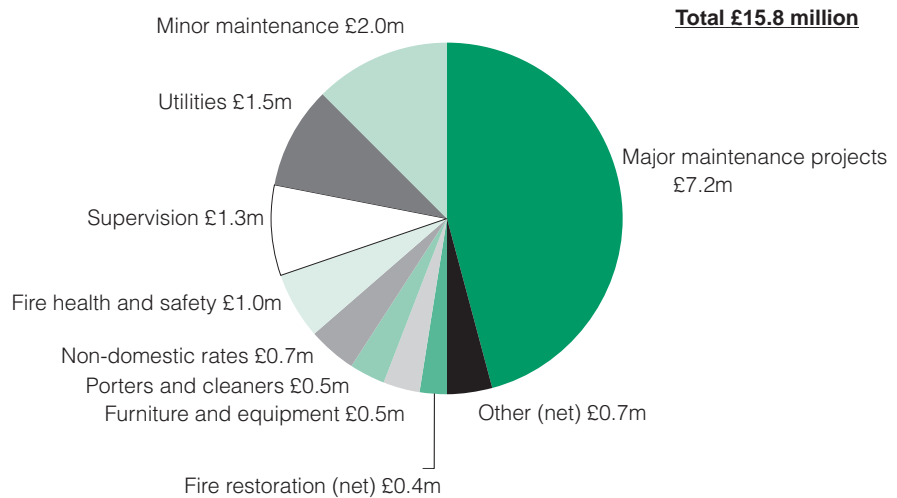
What did we examine?

1.4 The grant-in-aid covers expenditure on property maintenance, furnishings and equipment, fuel and utility bills, telecommunication costs at some properties, fire precautions, non-domestic rates and certain staff costs (Figure 2). It also includes an allowance for furnishings, decoration and works at the discretion of the Sovereign. Property maintenance expenditure amounted to £10.9 million (69% of the grant-in-aid) in 1998-99. We decided to focus our examination on major property maintenance projects as these represented the largest area of expenditure – £7.2 million before taking account of supervisory costs. Minor maintenance expenditure, covering smaller jobs under £2,500, is subject to separate procedures.

Costs met from the grant-in-aid in 1998-99

Figure 2

Major maintenance project expenditure (on jobs over £2,500) represented 46 per cent of the grant-in-aid in 1998-99.



Source: The Royal Household

Note: Fire restoration expenditure at Windsor Castle is net of the contribution generated by visitor income. Other expenditure is net of income, mainly from rents and interest.

1.5 The main types of major maintenance and the approximate spend in 1998-99 on each were:

	£000
Energy conservation includes the installation of energy efficient lighting and secondary glazing.	87
Fire precautions includes the installation of automatic fire detection equipment, re-wiring, fire compartmentation and improved means of escape.	1,671
Health and Safety includes lift modernisation, removal of asbestos, and the repair and replacement of roof walkways.	450
Housing includes the repair and refurbishment of self-contained residential accommodation. ¹	620
Offices and workshops includes the provision of new and refurbished office and workshop space.	1,304
General maintenance includes all other expenditure, such as re-roofing, resurfacing roads and paths, redecoration and repairs to the external fabric of buildings.	3,112
	7,244

Note: 1. The cost of housing is covered by salary abatements and charges for employees, and rental payments from other occupants of self-contained residential accommodation, totalling £630,000 in 1998-99.

Source: Royal Household

What did we do?

1.6 The main focus of our work was six key questions about how property maintenance is managed and controlled (Figure 3). These questions, which we discussed at the outset with the Department and the Royal Household, were based on our experience from earlier work in this area before we had access to the Household (Appendix 1) and on good practice in procurement and estate management. The criteria we used to evaluate the Royal Household's performance are at Appendix 2.

The Key Questions

Figure 3

How the work is organised (Part 2)

- Are condition surveys of the Palaces completed according to appropriate standards, and is the cycle of surveys on track?
- Is there a comprehensive works programme which meets the Household's objectives, and addresses the maintenance needs identified by surveys?
- Is work subject to competition, and the lowest tender selected except where clearly justified?

The costs and timing of the maintenance work (Part 3)

- Is the works programme proceeding on schedule?
- Are projects delivered within cost estimates?

How the quality of work is controlled (Part 4)

- How do the Royal Household satisfy themselves that appropriate maintenance standards have been met?

1.7 In accordance with the new access arrangements set out in Appendix 1 we drew on KPMG's financial audit work relating to 1998-99. We discussed their audit plan with them, and examined their working papers when their audit was completed. Their audit report included assurances beyond those normally given in a financial audit – it confirmed that the Royal Household had adhered to Government Accounting requirements, met the Department's reporting requirements and spent the grant-in-aid for the intended purposes. They also reported that no matters had come to their attention which indicated that material items of expenditure of a wasteful or extravagant nature had been charged to the grant-in-aid. As is normal for a financial audit, KPMG's terms of engagement did not require them to give a direct opinion about the value for money achieved by the Royal Household. Their examination and working papers related to forming an opinion on the accounts and the other matters mentioned above, consequently the scope of their work did not necessarily address all the issues relevant to our examination.

1.8 We therefore arranged with the Department to examine some issues directly at the Royal Household. We interviewed key staff, examined survey reports, project files and documentation supporting the Household's annual works programme. We also visited Buckingham Palace, St James's Palace, and Windsor Castle, including the Royal Mews and some buildings in Windsor Home Park, to view areas where maintenance work is required and projects underway and

recently completed. These visits allowed us to gain an appreciation of the difficulties faced in working on historic properties which are also used as residences and for official business.

1.9 Our detailed analysis of the Household's performance in managing individual projects focused on 16 large projects costing £4.23 million in 1998-99 (Appendix 3). KPMG selected these projects for their financial audit of major property maintenance expenditure, and we decided to use the same selection to minimise duplication of audit work. They were a broad cross-section of projects, including the seven largest projects – each costing over £150,000 – and some projects with cost variations. We also analysed progress on the major maintenance programme as a whole, using management information generated by the Royal Household. We also discussed the works programme with the Department and English Heritage.

1.10 We would like to thank the staff of the Royal Household, their auditors at KPMG, the Department and English Heritage for the full help and co-operation we received during our audit.

Part 2: How the maintenance work is organised

2.1 This part explains the administrative context in which the Royal Household's maintenance programme is carried out. It also looks at how the programme is planned and at the extent to which work awarded to outside contractors is competed.

Who is responsible for what?

2.2 The Accounting Officer at the Department is accountable to Parliament for propriety, regularity, and the economical and prudent administration of expenditure from the grant-in-aid. Under a Memorandum of Understanding with the Department, the Lord Chamberlain – the head of the Royal Household – is responsible for, amongst other things, appointing an official (currently the **Keeper of the Privy Purse**) to be responsible for the stewardship of the grant-in-aid (Figure 4).

2.3 Whilst the Department have ultimate responsibility for the maintenance of the Occupied Royal Palaces, day to day management and operating responsibility rest with the Royal Household. Their objectives, set out in the Memorandum of Understanding with the Department, are:

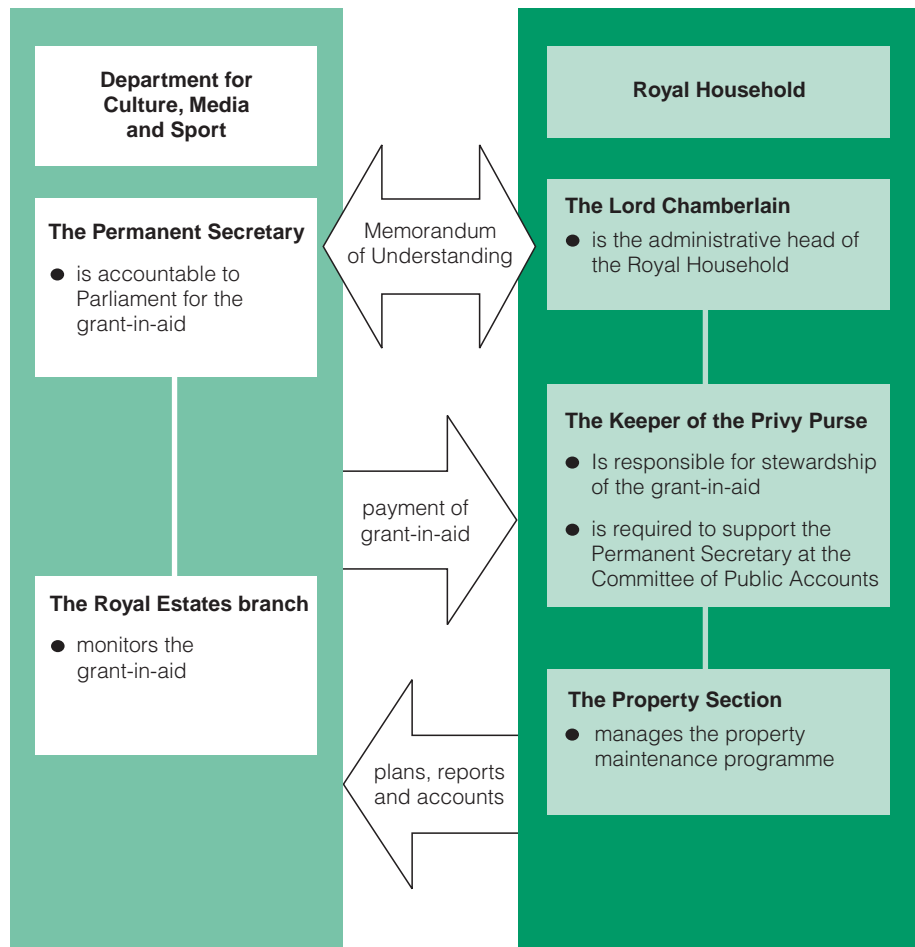
- To maintain the Palaces as buildings of State to a standard consistent with the Royal Household's operational requirements and with the royal, architectural and historic status of the buildings in a manner which ensures value for money; and
- To that end to organise and obtain works and other property services in the most economic, efficient and effective way and to achieve financial and other performance targets as specified.

How is the work organised?

2.4 The Royal Household's maintenance programme is handled by the Property Section. The Section is headed by the Director of Property Services, a member of the Royal Institute of British Architects. There are 160 staff whose salaries are paid from the grant-in-aid – 56 work for other departments in the Royal Household and 104 work for the Property Section. Of these, 58 have duties

Responsibilities for the grant-in-aid

Figure 4



which are not connected to property maintenance, including fire surveillance officers, gardeners, telephonists and administrative personnel. Of the remaining 46 staff, there are 2 architects, 1 quantity surveyor, 1 qualified engineer, 1 accountant, 18 building surveyors and technicians and 23 direct maintenance staff. For large or complex projects, external architects, structural engineers, mechanical and electrical engineers and quantity surveyors are used. Expenditure on professional fees in 1998-99 was some £587,000.

2.5 We looked at whether there is a comprehensive works programme which meets the Royal Household’s objectives, whether the Palaces are subject to condition surveys and whether the works programme addresses the maintenance needs identified by the surveys.

2.6 The key planning document is a rolling five-year plan for the grant-in-aid, supported by a five-year work programme – a full schedule of maintenance projects costing over £2,500. Both are updated annually, and approved by the Department. In effect, the five-year plan and work programme are the basis on which the Department assess the level of grant-in-aid to be paid to the Royal Household for the coming year. On the basis of these documents, the Property Section draw up an annual work programme. This is reviewed and updated monthly, with a copy sent to the Department each quarter.

2.7 The work programme is derived from a number of sources, including physical inspection of the properties by the maintenance team and specialist consultants; new fire, health and safety priorities; consultation with English Heritage; advice from other conservation architects; and operational requirements. To provide an independent review of the maintenance standard of the estate, the Property Section commission consultant surveyors to undertake a cyclical programme of quinquennial condition surveys of each palace. The first cycle of surveys, covering the whole estate, was completed on time in 1997, and a second cycle is now underway and on schedule. We reviewed the three most recent survey reports – covering Windsor Castle, Upper Ward (1996), Windsor Castle, Middle and Lower Wards (1997) and Buckingham Palace (1998). We found that they provided a detailed assessment of the condition and structure of the fabric of each building, on a room-by-room basis, with prioritised recommendations regarding the work required.

2.8 The Department, as part of their monitoring of the grant-in-aid, employ a firm of property and construction consultants to appraise the five-year plan and annual work programme, including the timeliness of responses to quinquennial and other surveys. Expert knowledge of the palaces is required under the current manual systems to match the thousands of survey recommendations, many of them minor, against the 400-500 projects included in the planning documents. However, the Department's consultants have been able to obtain from the Property Section the information and explanations they have required. The Property Section have recognised the difficulty and have put in place a programme to computerise the information in their quinquennial survey documents and intend to link this with the work programme. A useful by-product of this is to facilitate the review by the Department's consultants.

2.9 To assess progress in addressing high priority maintenance needs identified by recent quinquennial surveys, we carried out our own review of the Property Section's work plans and records of completed projects to identify whether a selection of seven (45 per cent by value) of the work recommendations

prioritised as “immediate” in the three most recent survey reports had been actioned. We found that by July 1999 all the work in these cases had been carried out.

To what extent is work subject to competition?

2.10 The Property Section aim to let all contracts with a construction cost of £25,000 or more by competitive tender. This is one of the performance indicators agreed by the Department, published in the Royal Household’s annual report, and covered by KPMG’s audit, and the target has been achieved in each of the five years up to and including 1998-99.

2.11 The Royal Household also report, to the Department, the number of smaller jobs costing £2,500 or more for which competitive tenders or comparative quotes have not been obtained. In total, 245 contracts were let during 1998-99, with 241 competitively tendered. The other four were all under £5,000 in value. In two cases the original supplier was contracted to upgrade or modify existing equipment. Another case was a contract for emergency work after a fall of plaster from the Buckingham Palace ballroom ceiling. In the remaining case only one contractor could be found who had the appropriate skills to carry out the specialist conservation work required.

2.12 We confirmed that competitive tendering had been used for each of the 16 projects we examined in detail, and found that the lowest tender had been accepted in all but two. One of the projects was to design the Queen’s Gallery, and the winning architect was selected on the basis of design quality. For the other project, costing £135,000, the winning contractor offered better experience and time savings over another whose bid was £280 lower.

Part 3: The costs and timing of the maintenance work



3.1 This part looks at the costs of the maintenance programme, and extent to which the Royal Household deliver the programme to cost and on time. In viewing performance in this area it is important to recognise that:

- The palaces are historic buildings where it is particularly difficult to determine the extent of work required until existing surfaces have been removed.
- The palaces are working buildings in daily use, placing constraints on when work may be carried out. For example, major maintenance work is normally undertaken when The Queen is not in residence. There are also constraints on carrying out work in some areas when they are open to the public.
- Some of the projects are unique in the type of work required and the specialist skills needed to undertake them.

Who pays for what?

3.2 The grant-in-aid from the Department, £15.8 million in 1998-99, is the principal source of funding for expenditure on property services. However, other sources of income relating to the palaces, shown in the grant-in-aid accounts, are also used to meet these costs (Figure 5).

3.3 The largest source of funds shown in the grant-in-aid accounts apart from the grant-in-aid itself is the Royal Collection Trust, which publishes its own annual report and accounts. The Trust collects revenues from visitors to Buckingham Palace, the Palace of Holyroodhouse and Windsor Castle and its precincts. The visitor income from Buckingham Palace and the Palace of Holyroodhouse accrue directly to the Trust. Different arrangements apply to visitor income at Windsor Castle (Figure 6).

**Sources of funding shown
in the grant-in-aid account
for 1998-99**

Figure 5

	£000	£000
The grant-in-aid from the Department		15,809
The Royal Collection Trust:		
net surplus from paying visitors to the precincts at Windsor Castle (Figure 6)	3,416	
<i>Less</i>		
– Retained by the Trust to repay payments made in advance in earlier years to meet fire restoration costs	2,331	
– Cost of new visitor centre at Windsor Castle	<u>839</u>	
Contribution to 1998-99 fire restoration costs and general maintenance		246
Rents from residential and office accommodation		288¹
Interest		189

Note: 1. In addition, employees paid from the grant-in-aid or the Civil List provided with residential accommodation in the Palaces have their salaries abated. In 1998-99 these abatements and charges amounted to £521,000, representing savings to the grant-in-aid and the Civil List.

Source: The Royal Household

3.4 The allocation of costs between the grant-in-aid and the Trust is set out in a Royal Household Property Section desk instruction which has been agreed with the Department and the Treasury, and compliance with the desk instruction is covered by KPMG's financial audit. The desk instruction states that building and maintenance work exclusively for the Royal Collection Trust's commercial activities is paid for from the Trust's commercial revenues. The grant-in-aid pays for Property Services connected with the Royal Collection's curatorial activities and for maintaining interior fabric and fixtures – except for works of art, which are maintained by the Royal Collection. There are specific rules for some specific items such as carpets and tapestries.

3.5 The Department are considering the status of the income from charges to Windsor Castle precincts. However, the Royal Household said that in accordance with the formula in Figure 6 the net surplus from charges for entry to the Castle precincts would continue to be used for property services – meeting costs which would otherwise be met from the grant-in-aid. The receipts were shown on the face of the Department’s accounts for 1997-98 and earlier financial years, and the amount of money available to the Royal Household for grant-in-aid purposes was increased by a corresponding amount. The receipt in the Department’s accounts was supported by a detailed statement setting out how, in accordance with the agreed formula (Figure 6), Windsor Castle income had been apportioned to each recipient. And this statement was certified by KPMG in their capacity as the auditors of Royal Collection Enterprises Limited.

Visitor Income at Windsor Castle



Figure 6

After the Windsor Castle fire, a new combined charge was introduced for entry to the Castle to raise money for the restoration. A formula was agreed between the Royal Household and the Department to share out this income. The Royal Collection Trust, St George’s Chapel and a charitable trust within the Royal Household had all previously collected income from separate charges to visitors to parts of the Castle, although no charge had previously been made for entry to the precincts. After deducting the costs of collection and a management fee for Royal Collection Enterprises Limited (the commercial arm of the Royal Collection Trust), the formula compensated these recipients and allocated the balance, “the income from the precincts”, to fund the fire restoration. The sum involved was some £2.4 million in 1997-98.

Between 1993-94 and 1998-99, a total of £25.9 million of the costs of restoring Windsor Castle was funded from Buckingham Palace visitor income and Windsor Castle precincts income.

3.6 The varying level of receipts obliged the Department to seek a Supplementary Estimate each year to reflect the actual income at the year end. As this led to confusion on more than one occasion, and because the Royal Household agreed that the receipts would continue to be used for property services at the Occupied Royal Palaces, the receipts are no longer shown on the face of the Department’s accounts. However, the Department did not seek a certified statement from the Royal Collection Trust’s auditors explaining and confirming the amount received for 1998-99. Instead, they relied on the audited accounts of the Royal Collection Trust to assure themselves of the amount of money available from the Windsor Castle precincts receipts for property services. Following our enquiries they accepted the need for a certified statement of the calculation of the amounts involved and have asked the Trust to arrange this.

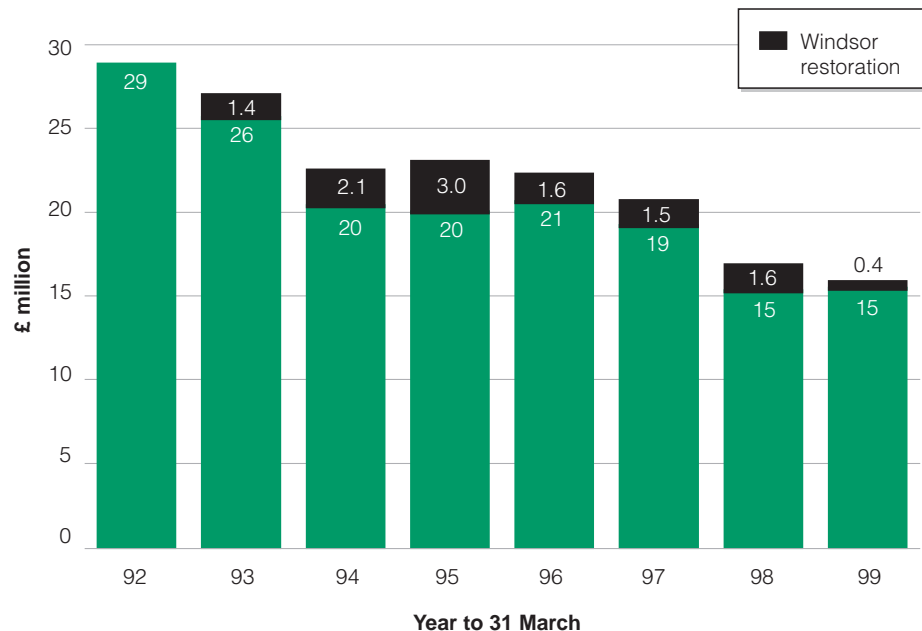
How successful have the Royal Household been in reducing costs to the taxpayer?

3.7 In transferring management responsibility for the upkeep of the Occupied Royal Palaces to the Royal Household in 1991, the Government expected the Household to obtain better value for money than under the previous arrangements – a succession of government departments had managed these services. Financial responsibility would be exercised by a professional team close to the organisation and buildings requiring the services provided, and the Royal Household would have the incentive to be economical. As shown in Figure 7, since the Royal Household took over the management of property services the amount of grant-in-aid has reduced from £29 million in 1991-92 to £15.8 million in 1998-99 (at 1998-99 prices).

Grant-in-aid expenditure since 1991-92

Figure 7

From 1991-92 to 1998-99 the grant-in-aid has fallen from £29 million to £15.8 million in real terms (1998-99 prices). Exceptional expenditure from the grant-in-aid on the restoration of Windsor Castle is shown separately. In addition, almost £26 million of expenditure on the Windsor Castle restoration was funded from income collected from visitors to Buckingham Palace and Windsor Castle.



Expenditure has been adjusted to real terms using the GDP deflator. The Royal Household does not use the GDP deflator but publishes real terms data using indices specific to those types of expenditure on which the grant-in-aid is incurred.

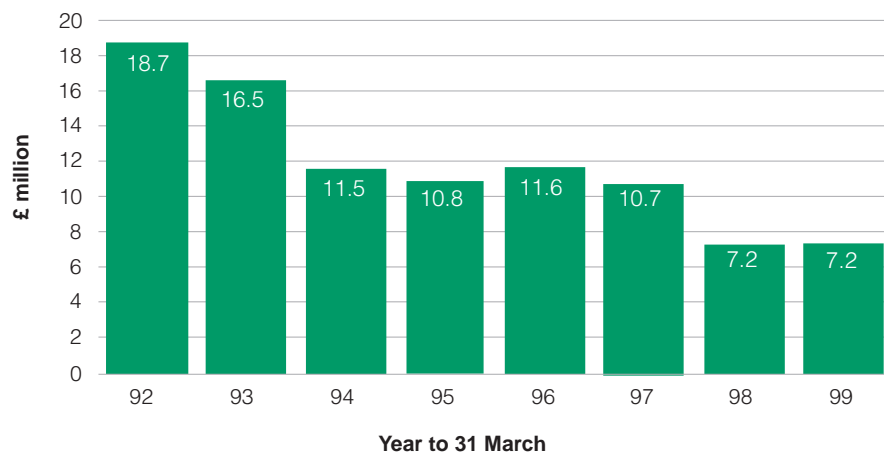
Source: National Audit Office

3.8 The single largest component of the expenditure met from the grant-in-aid is expenditure on maintenance projects costing more than £2,500 which has reduced from some £19 million in 1991-92 to £7.2 million in 1998-99 (Figure 8).

Expenditure on maintenance projects since 1991-92

Figure 8

In real terms (1998-99 prices) expenditure on property maintenance has fallen to under 50 per cent of the amount spent in 1991-92, when the Royal Household took over management of property services. The figures for maintenance projects shown above exclude the cost of the Windsor Castle restoration to allow year-on-year comparisons of maintenance costs.



Expenditure has been adjusted to real terms using the GDP deflator. The Royal Household does not use the GDP deflator but publishes real terms data using indices specific to those types of expenditure on which the grant-in-aid is incurred.

Source: National Audit Office

3.9 The risk attached to reducing maintenance expenditure is that a backlog of necessary maintenance work will be created. As well as reducing the grant-in-aid substantially, the Royal Household report in their five year plan that they have largely cleared the bulk of the maintenance backlog of £11.4 million that they inherited in 1991. The remaining work includes the last sections of fabric repairs to St James’s Palace, roof repairs to Buckingham Palace and Windsor Castle, and some re-wiring of Buckingham Palace and Clarence House.

3.10 The quinquennial surveys commissioned by the Royal Household (paragraph 2.7) provide a check that there are not significant maintenance backlogs when each palace is surveyed. Although the Department employ independent consultants to appraise the Royal Household’s five-year plan and annual work programme (paragraph 2.8), the Department have not specifically required them to comment on the maintenance backlog. The Department have agreed in future to ask their independent consultants to comment on any significant areas of remedial work, based on the quinquennial surveys.

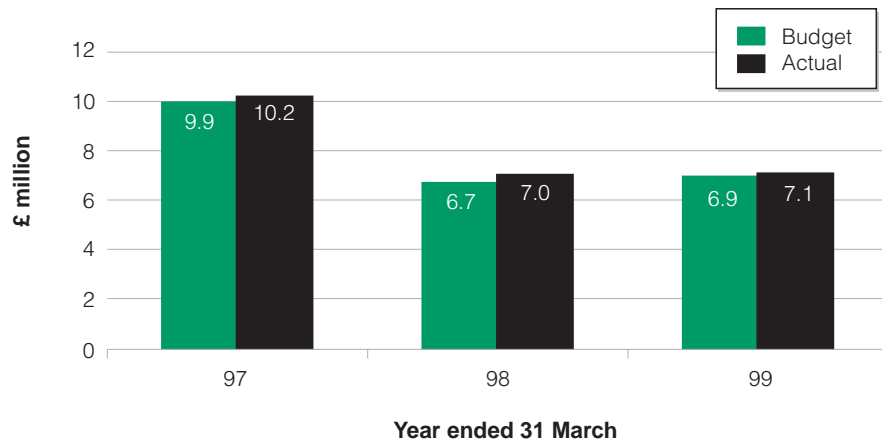
Is work delivered to cost and time?

3.11 We looked at the extent to which the Royal Household deliver to cost their grant-aided maintenance programme as a whole. As shown in Figure 9, in each of the last three financial years the Royal Household have spent between 2 and 4.8 per cent more on property maintenance than originally budgeted. However, in each of these years (as in every year since they assumed responsibility for property services) the Royal Household have contained their total grant-in-aid expenditure within the overall limit set by the Department by achieving savings against budget in other areas (for example, by reducing their energy costs). The Royal Household devote savings in other areas to property maintenance as they consider the maintenance of the important historic buildings entrusted to their care to be their primary objective.

Maintenance project expenditure against budget, 1996-97 to 1998-99

Figure 9

In each of the last three years the costs of maintenance have been between 2.0 and 4.8 per cent in excess of budgets, as a result of achieving savings in other areas.



Source: The Royal Household

3.12 As regards the Royal Household's success in delivering individual projects, in their annual report they present their performance against two cost-related performance indicators that have been agreed with the Department:

- a) 70 per cent of projects over £25,000 to be completed within five per cent of the let tender amount; and
- b) 100 per cent of projects over £25,000 to be completed within the greater of £20,000 and ten per cent of the let tender amount.

3.13 The Royal Household’s annual report shows the performance against these targets, and as shown in Figure 10 the targets have been generally met or exceeded over the last five years – throughout this period the first target has remained unchanged.

The Royal Household’s performance against their project cost targets

Figure 10

The target was met or exceeded in most cases.

	1994-95	1995-96	1996-97	1997-98	1998-99
Projects with a construction cost of £25,000 or more with a cost overrun of no more than:					
■ 70% of projects to be completed within 5% of the let tender amount	✗ (69%)	✓ (75%)	✓ (77%)	✓ (95%)	✓ (74%)
■ 100% of projects to be completed within the greater of £20,000 and 10% of the let tender amount	✓	✓	✗ (97%)	✗ (95%)	✓

Source: The Royal Household

3.14 Cost overruns in the construction industry are not uncommon, and it is right that the Royal Household have indicators which show how successful they have been in controlling costs. The two indicators are complementary. Whilst the first indicator highlights any overrun of over 5 per cent, the thresholds in the second highlight cost increases which require specific approval from the Department. It is in the nature of pure cost-related indicators that they do not say anything about the quality of the work done, or whether it was necessary to adjust the scope of the project – as happened in three of the 16 projects we examined. But the quinquennial surveys (paragraph 2.7) and end users provide assurance about the scope and quality of work.

3.15 Although the two indicators assess the Royal Household's performance in getting high-value projects completed to budget, the 433 projects costing between £2,500 and £25,000 cost in total some £2.4 million in 1998-99 and as such represented some 30 per cent of the programme. At present, performance on these lower value projects is not reported in the Royal Household's annual report. They issue the updated annual works programme to the Department quarterly, and this shows progress on each individual smaller project. There are several hundred projects in this category and the Department and the Royal Household have agreed to look at whether information already collected can be converted into a performance indicator for these jobs.

3.16 Similarly, the Royal Household do not report their performance in delivering projects to time. They told us that the importance of completion dates varies considerably between jobs. Their intention is to deliver jobs at the keenest price, minimising disruption and allowing flexibility to manage the flow of work, so they consider that having a performance indicator in this area would not be helpful.

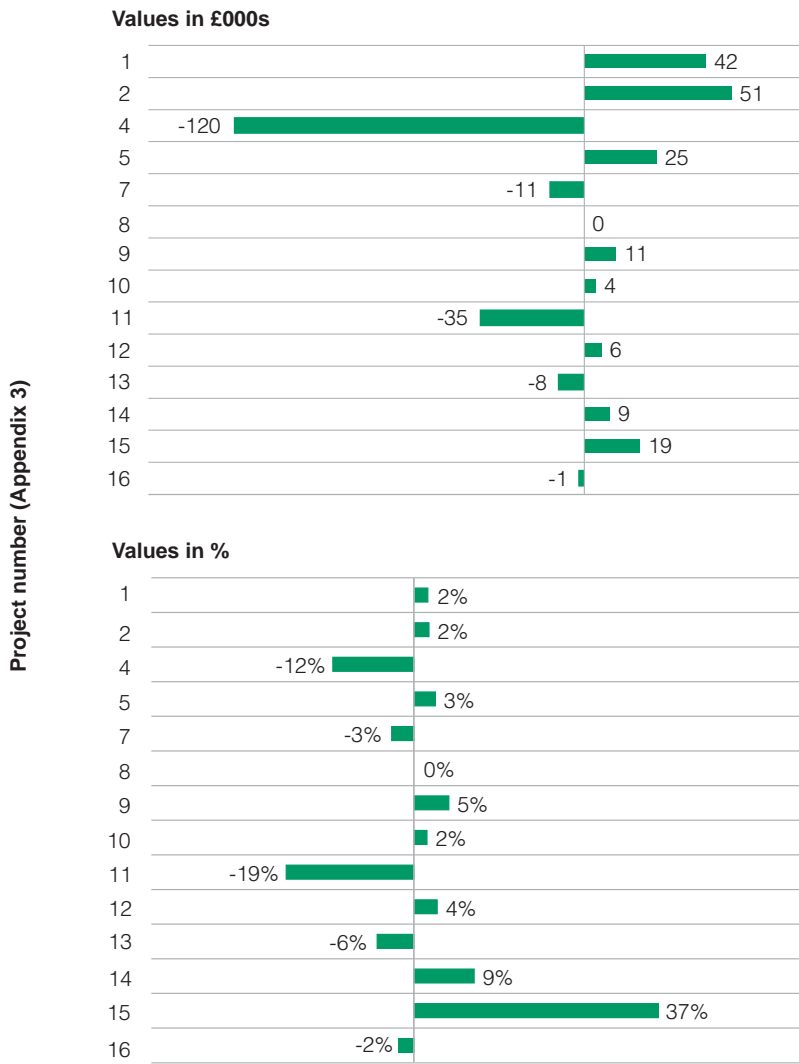
3.17 We looked beyond the overall results by analysing in more detail the Royal Household's cost and time performance on individual projects. Of the 16 projects we selected (paragraph 1.9), 14 had been completed when we did our work, and our findings were as follows:

- a) As regard **cost**, we found that eight projects had increased in cost by a total of £167,000 and five had decreased in cost by a total of £175,000. The total cost of the projects was £7.9 million (Figure 11).
- b) As regards **time**, we found that all but three projects were completed within a month of the date in the contract (Figure 12 on page 23).

Cost variations on the 14 completed projects examined by the National Audit Office

Figure 11

The graphs show variations against tender cost for the 14 projects examined by the NAO which had progressed beyond the tender stage, in absolute cost terms and as a percentage. Project numbers refer to Appendix 3. The total cost of the projects was £7,915,000 (budget £7,923,000). 8 projects exceeded their budget.



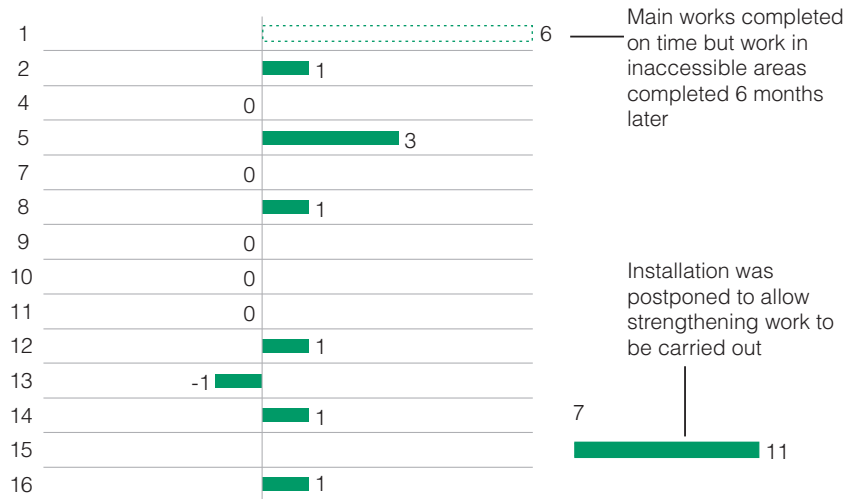
Source: National Audit Office analysis of Royal Household project data

Note: Projects 3 and 6 were not complete at the time of our examination.

Completion dates of selected projects against contract

Figure 12

Three of the 14 completed projects were completed more than a month late.



Source: National Audit Office analysis of Royal Household project data.

Note: Projects 3 and 6 were not complete at the time of our examination.

3.18 Figure 13 shows the main reasons for cost increases of over £5,000 on individual projects and delays of over a month. In summary they were:

- structural work identified once the project started and areas were opened up; and
- decisions to add minor maintenance work to projects which would otherwise have been carried out separately, to minimise disruption to the palaces.

Additional work was costed by the Royal Household’s project quantity surveyor before variation orders were issued, using rates agreed in the original contract.

Figure 13

Cost increases and delays on selected projects

Project 1

Fire compartmentation in the Windsor Castle Upper Ward - project to install fire compartmentation in the areas of the Upper Ward unaffected by the fire. An increase of £42,000 (2%) taking the total cost to £2.332 million, with main works completed on time but work in inaccessible areas completed six months later.

The project lasted nearly two years and there were numerous variations. A key event was the early discovery of asbestos which had to be removed at a cost of £66,000. To recover time the work was rescheduled because of a requirement to finish the work, and end the disruption to the Upper Ward, by the completion of the fire restoration. This resulted in a disruption claim by the main contractor which was settled at an extra cost to the compartmentation project of £53,000. Further delay and costs were caused by extra fire protection work, required to obtain a fire certificate, carried out after the original deadline because contractors were previously unable to access the relevant areas. Other alterations to the project reduced its cost.

Project 2

New visitor centre at Windsor Castle - a project which the grant-in-aid undertook on behalf of the Royal Collection, which funded 97 per cent of its cost. An increase of £51,000 (2%) taking the total cost to £2.277 million.

The main increases resulted from extra stonework and the cleaning of interior brickwork.

Project 5

Picture conservation studio for the Royal Collection - conversion of vacant buildings in Windsor Home Park to provide a new studio replacing inadequate accommodation in St James's Palace. An increase of £25,000 (3%) taking the total cost to £788,000, and a delay of 3 months.

The delay, which the Royal Household attributed to the performance of the main contractor, did not increase the cost. The cost increases arose from variations to the contract for additional repair work and orders for carpets and fittings added to the project. The carpets were funded by the Royal Collection.

Project 9

Redecoration of the White Drawing Room at Windsor Castle. An increase of £11,000 (5%) taking the total cost to £218,000.

The increase was mainly due to additional works which were identified during the project such as plasterwork on the ceiling and joinery on the walls plus a small amount (£1,000) of extra cost for disruption to work.

Project 14

Refurbishment of an apartment at Windsor Castle. An increase of £9,000 (9%) taking the total cost to £107,000.

The increase arose from minor additional works such as plumbing and electrical alterations and redecoration.

Project 15

Installation of new wardrobes in three rooms at Buckingham Palace. An increase of £19,000 (37%) taking the total cost to £70,000, and deferred completion by 11 months.

Once work started it emerged that the joists supporting the floors were not as thick as had been thought and would not support the weight of the new wardrobes. Strengthening work could not be undertaken until the following summer recess and installation was postponed until the following winter. During the intervening period the user identified additional requirements resulting in changes to the design of the wardrobes themselves, which added some £9,000 to the cost.

Part 4: How the quality of work is controlled

4.1 This part of the report examines how maintenance standards are set and how the Royal Household assure themselves that the palaces are maintained to an appropriate standard.

Are appropriate maintenance standards set?

4.2 Windsor Castle and Kensington Palace are scheduled ancient monuments and the other palaces are listed historic buildings. As Crown properties, they are exempt from legislation requiring scheduled monument or listed building consent for alterations. However, clearance must be sought by the Royal Household under 1984 Department of the Environment regulations for any alterations to scheduled monuments from the Department for Culture, Media and Sport and to listed buildings from the local planning authority.

4.3 Under planning legislation, English Heritage provide advice to both the Department and local planning authorities on heritage matters. The Royal Household's Property Section also draw on English Heritage's expertise – they meet English Heritage formally three times a year (we attended one such meeting) to discuss their maintenance programme and to identify which projects will require scheduled monument or listed building clearance. English Heritage normally inspect any such areas on site by arrangement with the Property Section, and review the specifications proposed for projects by the Property Section's consultants.

4.4 We established that the Property Section's desk instructions set out general standards to be applied to such matters as the standard of interior finishes, fixtures and fittings for apartments, and fire and safety precautions. They also include indicative costs for fitting out different categories of accommodation. The Property Section use national standard specifications prepared by the Royal Institute of British Architects.

4.5 We confirmed that for the ten projects we examined where scheduled monument or listed building clearance was required, the necessary clearances had been obtained.

What is done to ensure that the palaces are actually being maintained to an appropriate standard?

4.6 We examined the way the Royal Household controlled major projects to ensure that work was carried out to the required standard. We confirmed that, for the projects we examined, the Property Section monitored the standard of works while they were in progress, approved contract variations and ensured that work was completed to the required standard before payment was authorised.

4.7 The Royal Household also seek independent assurance that the Occupied Royal Palaces are being maintained to the appropriate standard from the quinquennial condition surveys undertaken by their consultant surveyors (paragraph 2.7). The consultants are required, under their terms of engagement, to comment on the condition of each element of the building, including the adequacy of maintenance and general care, and to schedule inappropriate repairs undertaken in the past. The resulting reports are made available to the Department.

4.8 We examined the 1997 survey report on the Middle and Lower Wards at Windsor Castle and confirmed that the consultants had addressed these matters. In this particular case, their overall conclusions were that:

"The general structural condition of all the buildings surveyed is good – that is to say that there was no evidence of any significant structural movement that might endanger any of the buildings.

The buildings appear generally to have been well maintained. Gutters are generally clean and downpipes and gulleys clean and functioning. All areas appear to have been inspected on a regular basis.

There are a considerable number of defects noted in the report – this is hardly surprising given the scale of the property. Most of the defects are due to elements of the building reaching the natural end of their lives."

Source: Quinquennial Survey of
Middle and Lower Wards
Windsor Castle - 1997,
Purcell Miller Tritton and Partners

Are post-project reviews carried out?

4.9 Post-project reviews are a structured way of looking at whether projects have delivered what was intended, in the way intended, and identifying lessons for the future. The Royal Household's Property Section have not generally carried out such reviews, although the direct involvement of property section staff in all projects means that managers have been aware of difficulties which projects have

encountered. They have recently introduced a review process which is being applied to a selection of projects some 9-12 months after completion. The Royal Household told us that they have now carried out four such reviews.

Appendix 1

The arrangements for National Audit Office access

Background

1 Since 1991, the upkeep of the Occupied Royal Palaces has been funded by a grant-in-aid from the Government – most recently, the Department for Culture, Media and Sport – to the Royal Household. Previously, a succession of Government Departments had managed these services. The Government expected the Royal Household to be able to obtain better value for money than under the previous arrangements, because financial responsibility would be exercised by a professional team close to the organisation and buildings to whom the services were provided, and the Household would have the incentive to be economical. The Royal Household have established a Property Section to manage the grant-in-aid.

The National Audit Office's previous work

2 In the aftermath of the fire at Windsor Castle in 1992, the Committee of Public Accounts asked the Comptroller and Auditor General to report on property services in the Occupied Royal Palaces. The grant-in-aid arrangements did not then give the National Audit Office access to the Royal Household, so the examination focused on the Department's oversight of the grant-in-aid. The review concluded that the Department's general monitoring arrangements were satisfactory, and noted that the transfer of responsibilities had been successful in reducing costs and improving the delivery of property services.

3 The Committee sought further information from the Department, the Royal Household and the National Audit Office, and we provided a subsequent memorandum to the Committee in April 1995 on responsibilities for Royal Household remuneration and the use and provision of accommodation. The Treasury Minute (Cm 3936) responding to the Committee's report (9th Report, Session 1997-98) on the latter memorandum established arrangements for the National Audit Office to have access to the Royal Household to examine the grant-in-aid.

The current arrangements

- 4** The Treasury Minute provides for us to:
- discuss with KPMG their audit plan and request any additional work we wish to be included;
 - later, to examine their working papers and conclusions; and
 - discuss with the relevant Department any points we would like to examine more directly.

In such cases, the Department would expect to arrange with the Household for National Audit Office officials to have direct access to the relevant material.

- 5** The full text of the Treasury Minute is:

The Committee's Comment

“We consider that it is always preferable for auditors to have direct access to the source of information ... We are disappointed ... that the Government have decided not to grant such access to the Comptroller and Auditor General in this case, since they consider that [it] would be incompatible with the Royal Household's unique constitutional position. We do not agree with this view, since we believe that it would be in the interests of Her Majesty the Queen, as well as Parliament, that the usual principles of direct access by the Comptroller and Auditor General to papers relating to the expenditure of money voted by Parliament should apply”.

The Government's Response

“The Department notes the Committee's view. Parliament votes the grant-in-aid to the Sponsoring Department, who are formally accountable for it and to whom the Comptroller and Auditor General has access in the normal way. Through the Department he has full access to the accounts and records of the Royal Household and (as the Committee recognises) all requests for information have been readily complied with. National Audit Office officials have visited Buckingham Palace and Windsor Castle, and the Keeper of the Privy Purse has twice given evidence at hearings of the Committee. The books and accounts of the grant-in-aid are subject to detailed audit and review by professional external auditors.

The Department believes that this provides a satisfactory basis of accountability. However, once the Comptroller and Auditor General has had a chance to discuss the audit plan (and to request any additional work he wants included) with the external auditors and later to examine their work papers and conclusions, the Department would be happy to discuss with him any points that he would like to examine more directly. In such cases, the Department would expect to arrange with the Household for National Audit Office officials to have direct access to that material, so that the Comptroller and Auditor General can assure the Committee that the accounts show a true and fair view and that there is no reason to doubt that good value for money is being obtained”.

Appendix 2

The National Audit Office's audit criteria

Are condition surveys of the Palaces completed according to appropriate standards, and is the cycle of surveys on track?

The Royal Household should carry out independent surveys of each palace at least every five years, covering:

- a detailed analysis of the current level of upkeep of each property;
- prioritised recommendations of work required to maintain the fabric of the estate at a satisfactory standard;
- comment on the impact of deferral of recommendations;
- cost estimates, with method of estimation.

The Royal Household should review surveys to establish consistent reporting standards and identify trends in the level of upkeep identified.

The Royal Household's Property Section should take full account of English Heritage's requirements for the care and maintenance of listed buildings.

Is there a comprehensive works programme which meets the Household's objectives, and addresses the maintenance needs identified by surveys?

The individual projects within the programme should be traceable to the Royal Household's five-year plan, which should have been compiled from:

- a comprehensive forward maintenance plan based on the Royal Household's quinquennial surveys of all parts of its Estate; and
- the operational needs of the users of the Estate.

Both of these sources should prioritise proposed tasks.

The programme should be revisited on a regular basis in the light of changing circumstances.

Is competition used, and the lowest tender selected except where clearly justified?

Contractors should be selected using competitive tendering. A formal tender process should be used where the value of the project exceeds specified limits.

The tender selected should represent best value for money, not simply the lowest initial cost. However, there should be a clear justification where the lowest tender is not selected.

Is the works programme proceeding on schedule?

The Royal Household should measure progress against the planned programme through a formal system of regular progress reports and meetings on individual projects.

If projects are moved forwards or backwards within the programme, there should be clear reasons that reflect the priorities previously assigned to each project.

Projects should not be deferred beyond the latest date identified by surveys or other specialist inspections.

Are projects delivered within cost estimates?

Competitive tendering should be used – see above.

The Royal Household should monitor changes in project cost through regular reports on predicted outturn cost.

Rigorous vetting procedures should be required for proposed changes to the programme. The Property Section's project manager or supervisor for the project should approve all changes with cost implications.

How do the Royal Household satisfy themselves that appropriate maintenance standards have been met?

The Property Section should ensure that users do not include excessive requirements in the brief.

The Property Section should specify work to an industry-approved standard.

The Property Section should have a level of works and conservation expertise sufficient to monitor the quality of work being done by consultants and contractors, in conjunction with consultant project managers or supervising officers.

In selecting consultants and contractors they should ensure that the competitive tendering process is used to select those that provide the best value for money, not simply the lowest initial price.

Royal Household staff or their representatives should satisfy themselves that works have been completed to the required standards before authorising payment.

The Royal Household should carry out post-project evaluations on completion of major projects, detailing their experience and lessons for the future. They should consult building users to confirm that buildings are meeting their requirements.

The Property Section should ensure that they comply with English Heritage's requirements for the care and maintenance of listed buildings.

Appendix 3

Major projects examined by the National Audit Office

Project	Description	Total cost (£000) actual or latest estimate
1	Fire compartmentation in the Windsor Castle Upper Ward - project to install fire compartmentation in the areas of the Upper Ward unaffected by the fire	2,332
2	New visitor centre at Windsor Castle	2,277
3	Fees for the design of the new Queen's Gallery at Buckingham Palace	2,175
4	General maintenance and repairs to the areas of the Windsor Castle Upper Ward unaffected by the fire, running parallel to Project 1	853
5	Picture conservation studio for the Royal Collection – conversion of vacant buildings in Windsor Home Park to provide a new studio replacing inadequate accommodation in St James's Palace	788
6	Repairs to the external fabric of St James's Palace	650
7	Upgrading services and installing fire compartmentation in one floor of Clarence House	315
8	Conversion of an apartment into office accommodation	232
9	Redecoration of the White Drawing Room at Windsor Castle	218
10	Banqueting Hall repair and fire compartmentation works, St James's Palace	206
11	Structural repairs to a plant room housing water tanks	175
12	Repair of Buckingham Palace Grand Portico	145
13	Replacement of a lift in Buckingham Palace	135
14	Refurbishment of an apartment at Windsor Castle	107
15	Installation of new wardrobes in three rooms at Buckingham Palace	70
16	Refurbishment and alterations to four offices in Buckingham Palace	62