

National Audit Office

Maintaining the Occupied Royal Palaces

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 14 Session 2008-2009 | 10 December 2008

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Tim Burr, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 850 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work saves the taxpayer millions of pounds every year: at least £9 for every £1 spent running the Office.



National Audit Office

Maintaining the Occupied Royal Palaces

LONDON: The Stationery Office
£14.35

Ordered by the
House of Commons
to be printed on 8 December 2008

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

Tim Burr
Comptroller and Auditor General
National Audit Office

5 December 2008

The National Audit Office
study team consisted of:

Flo Ashley, Vicky Davis, Imran Khan,
Oliver Lodge and Daniele Viappiani,
under the direction of Keith Hawkswell

This report can be found on the National Audit
Office web site at www.nao.org.uk

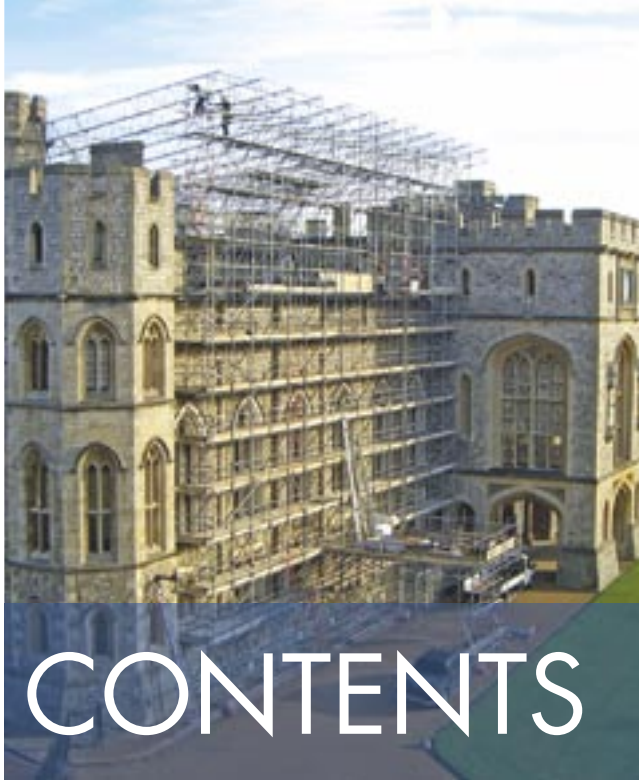
**For further information about the
National Audit Office please contact:**

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

© National Audit Office 2008



SUMMARY	4
MAIN REPORT	7
APPENDICES	
1 The methods we used	21
2 The arrangements for National Audit Office access	24



SUMMARY

1 The Occupied Royal Palaces Estate (the Estate) is held in Trust for the Nation and is used to support the official duties of The Sovereign. The Estate is used for a range of ceremonial functions and contains accommodation for certain members of the Royal Family, State and Semi State rooms, offices, workshops, stores and accommodation for staff. The Department for Culture, Media and Sport (the Department) is ultimately responsible for the upkeep of the Estate but in 1991 delegated to the Royal Household the responsibility for running and maintaining the Estate. The Household does so through the Property Services Department (Property Section) and receives grant-in-aid, £15 million in 2007-08, for this purpose.

2 This report was prepared under arrangements, established in 1998, giving the National Audit Office access to the Royal Household (Appendix 2). The report sets out the funding available to maintain the Estate and examines how the Property Section plans and delivers its maintenance work. We also looked at the impact the Property Section's running costs and income generated from the Estate had on the funding available to spend on maintenance. A full analysis of our methods is at Appendix 1.

3 Our main findings are as follows:

- The annual grant-in-aid has been largely static since 2000-01 and has therefore reduced by 19 per cent in 2008 prices. Over the same period spending on maintenance projects has reduced by 27 per cent in 2008 prices and running costs have increased by 11 per cent in 2008 prices. In 2007-08, however, the Property Section reduced running costs by £0.4 million compared to 2006-07 largely by reducing its consumption of utilities.
- While not a specific requirement of the Memorandum of Understanding, the Property Section generates income from renting out residential and office accommodation on the Estate. Since 2000-01 it has more than doubled the number of properties available to let to 36 in 2008 and increased the total annual rent to £1 million (an increase of 96 per cent in 2008 prices). The Property Section has not, however, developed or agreed with the Department an overall strategy or target for generating income from the Estate.
- Receipts from visitors to the Palaces go to the Royal Collection Trust to maintain and conserve works of art in the Palaces, on display in The Queen's Galleries or on loan to other institutions. The Property Section charges the Royal Collection Trust for the use of facilities at Windsor Castle (£1.8 million in 2007-08). Currently the Property Section does not apply a similar charge in respect of paying visitors to Buckingham Palace.
- One of the Department's high level objectives is "to maintain the Palaces to a standard consistent with operational requirements and their royal, architectural and historic status". The Department does not, however, have a basis for assessing whether this objective is being met as the Key Performance Indicators do not measure the outcomes achieved. The Property Section has identified the condition it would like the Estate to be in but has not defined the assessment criteria.
- Although the Property Section has recorded a maintenance backlog, it has not yet agreed with the Department what is achievable within the available funding or how performance will be assessed. The Department and the Property Section have not yet agreed criteria for assessing the backlog or a plan for managing it.
- The Property Section has recently strengthened its approach to planning its maintenance programme and has put in place the key elements of a sound maintenance strategy. It takes a long term view of the

needs of the Estate, has introduced a more efficient, risk-based approach for inspecting the condition of the Estate and assigns scores to maintenance projects to indicate their priority. While some projects have come in over budget, overall the Property Section is achieving its targets on project management.

Conclusion on Value for Money

4 The Household through its Property Section has been operating within declining grant-in-aid funding in real terms. The Property Section has improved value for money by tightening up the way it plans and manages its maintenance activities and by reducing its running costs in 2007-08. It has also taken opportunities to make alternative use of accommodation, including generating income through commercial lets, although the Property Section's approach would be strengthened if it had a strategy for the Estate which assessed its requirements over the long term.

5 Another aspect of achieving value for money is meeting the Department's objective to maintain the Palaces to a standard consistent with the Household's operational requirements and the royal, architectural and historic status of the buildings. The Property Section has identified a maintenance backlog, but until the Department and the Property Section agree a way of measuring the condition of the Estate the Department will not be able to show how far its objective is being met.

Recommendations

6 The recommendations below are intended to strengthen the Property Section's existing approach to maintaining the Estate and the Department's oversight. Implementing the recommendations would require some small diversion of staff effort in the short term and some cost if specialist advice were sought.

a) The Property Section and Department have established objectives for maintaining the Palaces but have not agreed how performance will be assessed.

The Department and the Property Section should agree a way of measuring the condition of the Estate to assess whether the Property Section is maintaining it in line with objectives (Paragraph 27). The Property Section intends to measure the changes in the maintenance backlog over time as a way of assessing performance. If backlog is to be used as a key performance measure in the future, the Property Section would need to:

- agree with the Department what should be included in the maintenance backlog, and apply the definition consistently to enable comparisons to be made over time (Paragraph 40);
- document its assessment of the practical impact if projects in the backlog are not addressed (Paragraph 41); and
- agree with the Department a plan for managing the backlog and measures by which progress will be assessed (Paragraph 40).

b) The Property Section carries out targeted and regular inspections of the Estate, but the assessment criteria are open to interpretation. Using in-house staff minimises costs but an independent assessment of the Estate's condition may improve the objectivity of the inspections.

The Property Section should develop its current inspection regime by:

- defining the criteria for assessing the condition the Estate should be in (Paragraph 33);
- carrying out random checks of the results of inspections (Paragraphs 32 and 33); and
- exploring the potential to exchange staff with organisations that are also responsible for maintaining historic buildings to bring independence to the inspections and give the Property Section's staff wider experience (Paragraph 32).

c) The Property Section has developed a detailed ten year maintenance plan based on a thorough inspection programme, but does not have a documented assessment of the condition of the whole Estate.

The Property Section should build on the results of its inspection programme by preparing a comprehensive record of the condition of the Estate (Paragraph 34).

d) The Property Section monitors the extent to which planned work is replaced by unplanned work but it does not draw out lessons to inform planning.

The Property Section should draw out lessons from the common reasons for projects not being delivered as scheduled and feed these findings into future maintenance plans (Paragraph 38).

e) Although not required by the Memorandum of Understanding, the Household generates additional income by renting out properties on the Estate. The Household has a long term goal of increasing the number of properties it lets, but as it does not have a documented, forward looking plan for how the Estate is used, opportunities for reducing costs and generating more income from the Estate could be missed.

The Property Section should prepare a forward looking plan that:

- explores the scope to free up properties which can then be let (Paragraph 17); and
- identifies properties on the Estate which do not contribute to the Household's operations and agree with the Department alternative uses for such properties, subject to security considerations and to recognising the historic significance of the Estate (Paragraphs 16 to 23).



The Occupied Royal Palaces

1 The Occupied Royal Palaces Estate (the Estate) is Buckingham Palace, St James's Palace, Windsor Castle, and parts of Kensington Palace, Hampton Court Mews and Windsor Home Park (**Box 1 overleaf**). The Palaces contain a diverse collection of around 360 individual buildings that are used to support The Sovereign's role as the Head of State. As well as providing residential accommodation for certain members of the Royal Family, the Palaces contain State and Semi State rooms, offices, workshops, stores and residential accommodation for staff. The Palaces are used for a variety of functions including State visits by foreign dignitaries and receptions and dinners which numbered around 360 in 2007-08. Buckingham Palace and Buckingham Palace Mews, Clarence House, Windsor Castle and Frogmore House, in Windsor Home Park, are also open to paying visitors at certain times of the year.

Responsibilities for maintaining the Palaces

2 The Occupied Royal Palaces are held in Trust for the Nation by The Sovereign and the cost of maintaining them falls to the Government. The Department for Culture, Media and Sport is ultimately responsible for maintaining and providing services to the Palaces and is accountable to Parliament. Since 1991, however, the day to day responsibility for planning and managing the maintenance work has rested with the Royal Household (the Household). The Department and the Household have agreed a Memorandum of Understanding, updated and signed in 2006, which sets out the roles and responsibilities of each party. The Royal Household's Keeper of the Privy Purse is responsible for the stewardship of the grant-in-aid and the management of Property

Services to the Occupied Royal Palaces. The Household's Property Section manages the property maintenance programme on a day to day basis. The Memorandum of Understanding contains high level objectives for the Household set by the Department. These objectives are:

- to maintain the Occupied Royal 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 and in a manner which ensures value for money;
- to organise and obtain works and other property, communications and information services in the most economic, efficient and effective way so as to achieve financial and other performance targets as specified; and
- to seek to contract in the most economical and efficient manner for the supply of services.

3 The Department has set a number of Key Performance Indicators and the Property Section reports progress against these indicators in quarterly reports to the Department and in its Annual Report and Accounts. The Department contracts specialist conservation consultants to comment on the extent to which the Property Section is meeting the objectives set out in the Memorandum of Understanding. The consultants review the programme of maintenance work and examine the management of specific projects.

4 The Memorandum of Understanding also reflects the Department's decision to ask the Household to project manage the erection of a memorial to the late Queen Elizabeth, The Queen Mother. The memorial is being constructed off The Mall at the site of the current memorial to King George VI. The Memorandum of Understanding sets out that the Household is 'responsible for the selection of a design for a memorial to the Queen Mother and to project manage its construction; ensuring the project keeps within the £2 million budget, demonstrates value for money and uses appropriate project control processes including some elements of the OGC Gateway review'.¹ The Department has appointed the Keeper of the Privy Purse the Senior Responsible Owner of the project. Although the Department does not sit on the Project Board it has commissioned consultants to carry out four reviews on the project. Two reviews have been completed to date, the last in April 2007.

5 The project began in late 2005 and was originally due to be completed in July 2008 but the Household decided to delay the start of the construction element of the project to allow more detailed work to be carried out on the designs. The Household now expects to substantially complete the project in December 2008 but within the £2 million budget.

Sources of funding

6 The Property Section receives an annual revenue grant-in-aid from the Department to maintain and run the Palaces. The revenue grant-in-aid, £15 million in 2007-08, has remained largely static since 2001 and has therefore fallen by 19 per cent in 2008 prices as **Figure 1** shows. In 2006-07 and 2007-08, the Property Section also received capital grant-in-aid of £0.2 million and £0.7 million respectively towards the redevelopment of single persons' accommodation at Buckingham Palace Mews (Box 2, page 13).

BOX 1

The Occupied Royal Palaces

Buckingham Palace, Buckingham Palace Mews and Gardens

Buckingham Palace has over 650 rooms including 52 State and Semi State rooms for official functions and private apartments for The Queen, The Duke of Edinburgh, The Duke of York and The Earl and Countess of Wessex. One hundred rooms are used as accommodation for single staff and there are also offices, kitchens and a number of stores and workshops. Parts of the Palace are open to paying visitors at certain times during July, August and September.

Buckingham Palace Mews is open to paying visitors between March and October and includes nine stables, a riding school, garages and coach houses. It also accommodates over 50 staff and their families and contains a shop for the Mews and office space.

Buckingham Palace has 39 acres of landscaped gardens that are used for garden parties and other functions.

St James's Palace

St James's Palace has over 650 rooms and contains Clarence House which is occupied by The Prince of Wales and The Duchess of Cornwall. The Palace also contains the private apartments of The Princess Royal and Princess Alexandra, eight State and Semi State rooms and a number of offices. Clarence House is open to paying visitors during August and September.

Windsor Castle and Windsor Castle Royal Mews

Windsor Castle contains around 700 rooms including 20 State and Semi State rooms, which are open to paying visitors throughout the year, and private apartments occupied by The Queen and The Duke of Edinburgh. The Castle also provides residential accommodation for staff and military knights and houses the Royal Library and Royal Archives. There are also rooms to accommodate a further 150 staff when the Court is in residence.

The Royal Mews is a working stable that houses The Queen's horses and cars. It also contains over 20 residences, five of which are commercially let.

Kensington Palace – residential areas

The residential areas of Kensington Palace comprise around 280 rooms within the main buildings including the private apartments of The Duke and Duchess of Gloucester, The Duke and Duchess of Kent as well as office space, a private chapel and accommodation for staff. The Prince and Princess Michael of Kent are in a rented apartment at Kensington Palace.

Hampton Court Mews and Paddocks

Hampton Court Mews contains 15 residences while the Paddocks comprise seven residences and 11 stable buildings.

Windsor Home Park

Windsor Home Park is a private Estate although the buildings, including Frogmore House, the Victoria and Albert Mausoleum and over 70 residences are part of the Occupied Royal Palaces. Frogmore House is open to paying visitors at certain times during the summer.

Source: The Property Section's records

¹ The OGC Gateway Process examines programmes and projects at key decision points in their lifecycle. It looks ahead to provide assurance that they can progress successfully to the next stage; the process is best practice in central civil government, the health sector, local government and Defence.

7 Although the Memorandum of Understanding does not require the Household to generate income, the Property Section supplements the grant-in-aid by letting properties on the Estate, generating £1 million in 2007-08. It also receives a facilities management charge, £1.8 million in 2007-08, for the Royal Collection Trust's use of facilities at Windsor Castle in connection with visitor admission. The Royal Collection Trust itself is funded through income received from visitors to the Palaces and sales of merchandise and is responsible for maintaining and conserving the collection of works of art held in Trust by The Sovereign for the Nation.

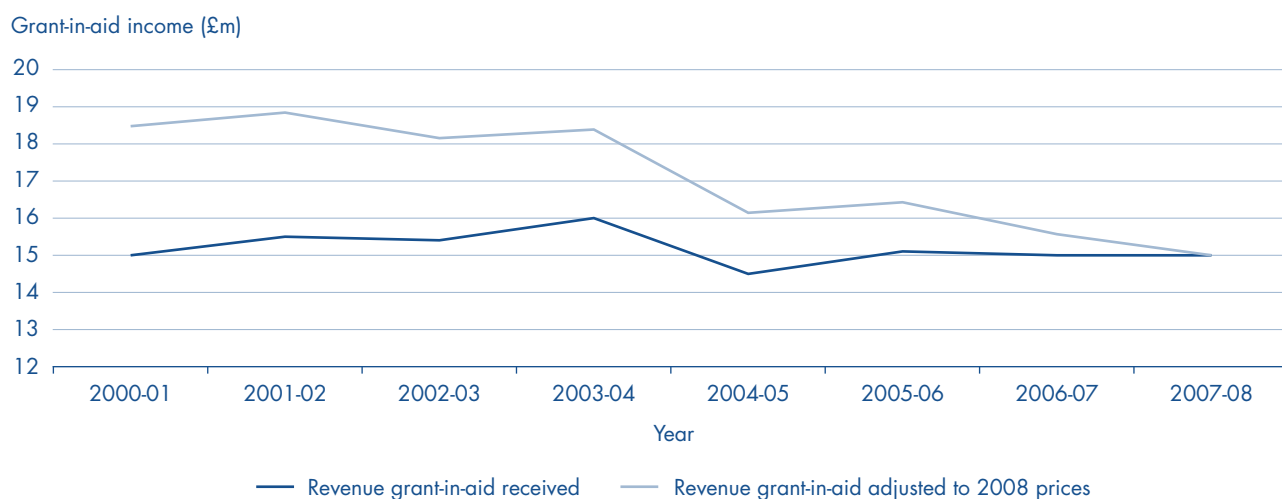
8 A combined charge for entry to Windsor Castle was first introduced in 1993-94 to raise money for the restoration following the fire and was based on the surplus income from visitor admissions after amounts payable to the Royal Collection Trust, the Privy Purse Charitable Trust and St George's Chapel had been deducted. In 2007-08, the Property Section renegotiated the formula for calculating the facilities management charge, giving it greater certainty over its income. The formula is now based on the previous year's income, includes an adjustment for inflation and evens out the effect of significant fluctuations in visitor numbers.

9 The Committee of Public Accounts previously recommended in 2001 that consideration be given to applying a share of the income from visitors to Buckingham Palace to meet costs that would otherwise be borne by the grant-in-aid.² There is not currently an arrangement for sharing receipts from visitors to Buckingham Palace, although the Property Section is looking to agree with the Royal Collection Trust a similar facilities management charge which will apply to Buckingham Palace receipts from April 2009. The Property Section is also negotiating to receive a share of the proceeds from Buckingham Palace Garden tours which are being introduced from April 2009 and will be managed by the Royal Collection Trust. These proposals are, however, subject to approval by the Trustees of the Royal Collection Trust.

10 **Figure 2 overleaf** shows how other income received by the Property Section has changed over the last eight years in 2008 prices.

11 In total the Property Section received £18.5 million funding in 2007-08, comprising grant-in-aid from the Department, income from letting properties and the facilities management charge (**Figure 3 overleaf**).

1 Revenue grant-in-aid funding received to maintain and run the Estate



Source: *The grant-in-aid for the maintenance of the Occupied Royal Palaces in England Annual Report and Accounts*

NOTES

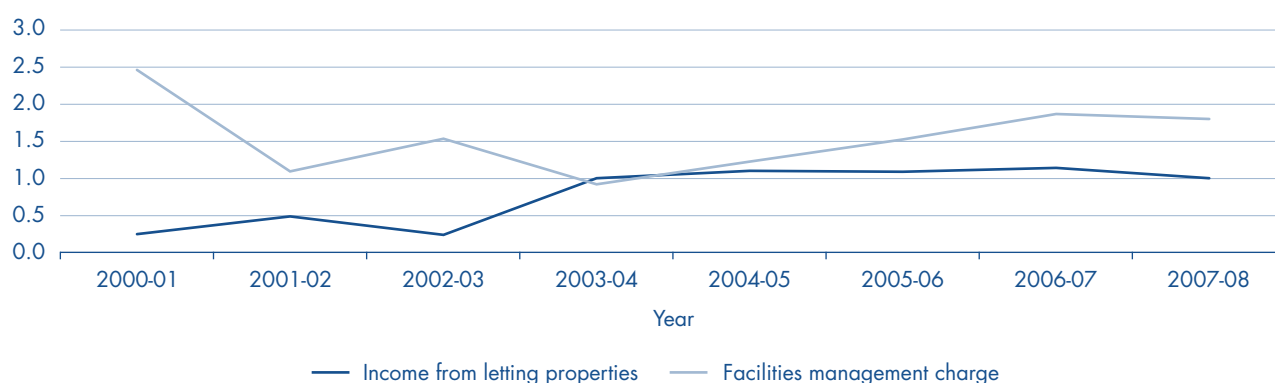
1 All figures have been adjusted to 2008 prices using Retail Price Indices.

2 The Property Section received an increase in grant-in-aid of £500,000, reducing by £100,000 in each subsequent year, when it took over responsibility for the Court Post Office in 2001-02.

² *Maintaining the Royal Palaces*, Committee of Public Accounts, Eighth Report of Session 2000-01 (HC 77).

2 Other income received since 2000-01 in 2008 prices

Income (£m) at 2008 prices



Source: The grant-in-aid for the maintenance of the Occupied Royal Palaces in England Annual Report and Accounts

NOTES

- 1 All figures have been adjusted to 2008 prices using Retail Price Indices.
- 2 In 2001-02 visitor numbers at Windsor Castle were 20 per cent lower than 2000-01, which the Household largely attributes to the impact of foot and mouth disease and the terrorist attacks in the United States of America.

3 Total funding received in 2007-08

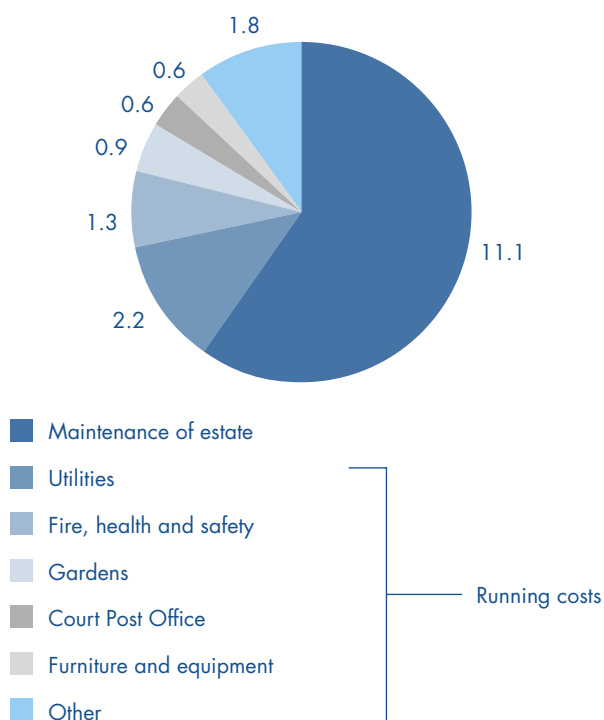
Source of funding	Value (£m)
Revenue grant-in-aid	15
Capital grant-in-aid	0.7
Total grant-in-aid	15.7
Letting Properties	1
Facilities Management Charge	1.8
Total funding	18.5

Source: The grant-in-aid for the maintenance of the Occupied Royal Palaces in England Annual Report and Accounts 2007-08

How the funding is used

12 In 2007-08, £11.1 million of the £18.5 million was spent on maintaining the Estate. The remainder covers the day to day running costs of the Palaces and grounds which include utility costs, fire, health and safety, non domestic rates and functions such as the Court Post Office which provides post office services at Buckingham Palace and Windsor Castle and a delivery service between the Palaces. **Figure 4** sets out how the Property Section spent the £18.5 million funding in 2007-08.

4 Costs met by the Property Section in 2007-08 (£m)



Source: The grant-in-aid for the maintenance of the Occupied Royal Palaces in England Annual Report and Accounts 2007-08

NOTE

Other costs include non-domestic rates (£0.8 million), central administration (£0.3 million), information systems (£0.3 million) and change in working capital (£0.4 million).

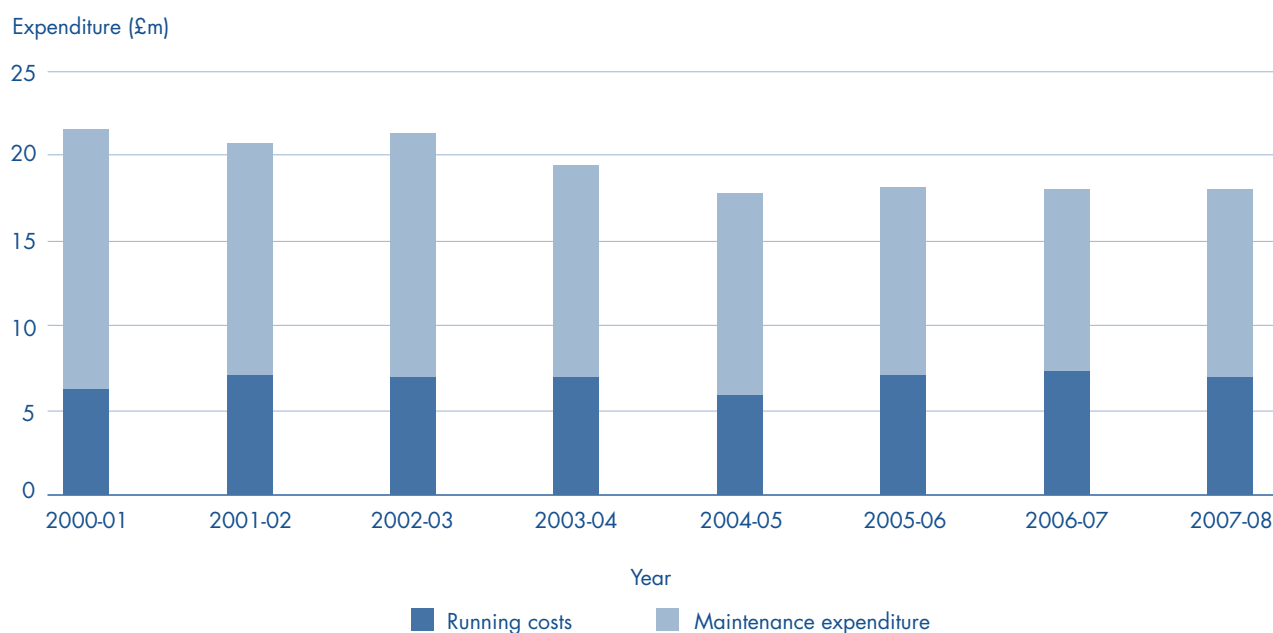
13 The level of grant-in-aid has resulted in the spending on the maintenance of the Palaces decreasing by 27 per cent in 2008 prices over the last eight years. In the same period running costs have increased by 11 per cent in 2008 prices, although in 2007-08 the Property Section reduced these costs by £0.4 million compared to 2006-07 (**Figure 5**).

14 In 2007-08, the Property Section spent £2.2 million on utilities which accounts for just under a third of overall running costs. The Property Section has four Key Performance Indicators which measure the movement in telephone, electricity, gas and water costs. The target for these indicators in both 2006-07 and 2007-08 was to ensure there was no movement in costs compared to the previous year, which meant that any increase in the unit cost of utilities would need to be offset by a reduction in consumption. In 2007-08, the Property Section reduced its overall utilities expenditure by 12 per cent in 2008 prices. The fall in utilities expenditure is partially due to the Property Section's energy saving initiatives such as the installation of combined heat and power units which

generate heat and electricity at the same time and which contributed to a reduction in electricity consumption of seven per cent compared to 2006-07. In addition, in March 2006 the Property Section signed a three year agreement to buy electricity and gas from the wholesale market which it expects will provide access to more competitive rates.

15 The Property Section employs 107 staff, including 55 property maintenance staff and this cost is met from the grant-in-aid. Staff costs (in 2008 prices) have remained relatively stable since 2001-02 (**Figure 6 overleaf**). In 2007-08 the Property Section spent £4 million, 22 per cent of the available funding, on staff costs. It has a Key Performance Indicator for the number of staff paid from the grant-in-aid and has reduced the number of staff from 160 in the last eight years to bring it within the target of 110. The Property Section currently uses contractors to carry out work that was previously undertaken by in-house staff, such as minor repairs and alterations, painting and grounds maintenance.

5 How the grant-in-aid and other income is split between maintenance and running costs in 2008 prices



Source: The grant-in-aid for the maintenance of the Occupied Royal Palaces in England Annual Report and Accounts

NOTES

- 1 All figures have been adjusted to 2008 prices using Retail Price Indices.
- 2 Funding to maintain the Estate includes both the core Estate and let properties.
- 3 The Property Section took over responsibility for Court Post Office from 1 April 2001, increasing costs by approximately £0.7 million (2008 prices) each subsequent year.

Making the best use of the Estate

16 A good estate strategy should match an organisation's operational needs with the property that it manages and therefore identify opportunities for reducing costs and generating income from parts of the estate. Without a clear and documented estate strategy, an organisation risks being too reactive in managing its estate and may miss opportunities for improving value for money. In 1999 the Department issued guidance on the disposal of historic buildings for Government departments and agencies. It recommends that 'if a historic building is surplus to requirements in its present use, departments should consider whether they can make cost-effective alternative use of it'.³ **Box 2** demonstrates how the Property Section has disposed of surplus land and shared the proceeds with the Department.

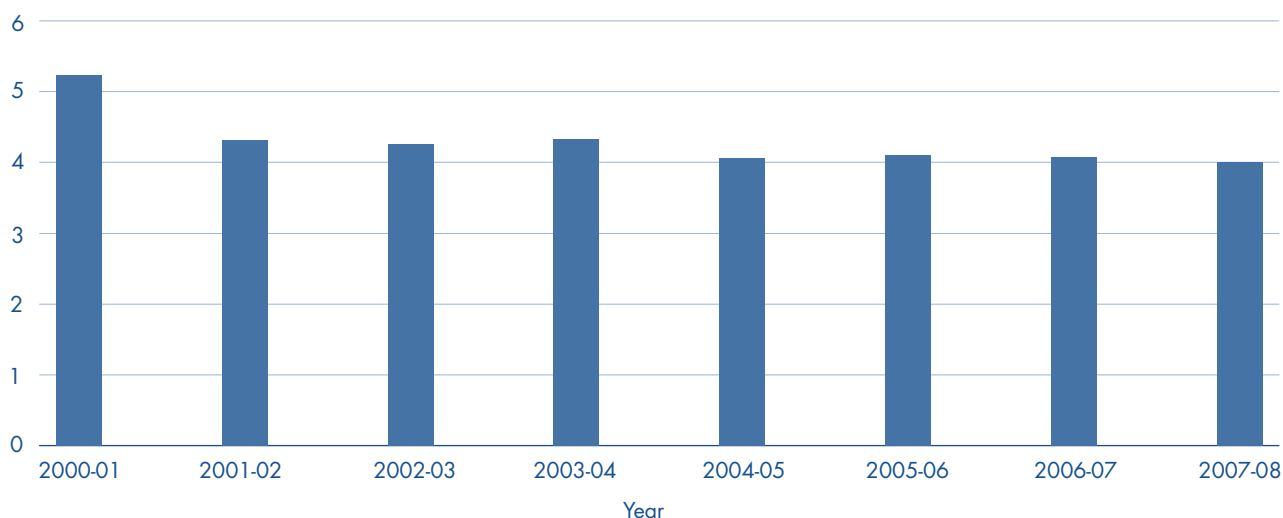
17 The Property Section does not, however, have a documented estate strategy or any specific targets for generating income. In 2001 the Committee of Public Accounts concluded there was scope for the Household to let more properties commercially and recommended

that the Household explore the scope for moving staff to accommodation within the secure perimeter of the Estate to free up more properties, which could be let to generate commercial income.⁴ Given the difficulties in forecasting when properties will become available, however, the Property Section evaluates alternative uses on a case-by-case basis when properties become vacant.

18 Since 2001 the Property Section has relocated one member of staff to property within the secure perimeter. In 2002-03 the Property Section moved a member of staff from The Old Office House at Hampton Court Mews to a flat within the secure perimeter of Windsor Home Park. The Old Office House was then let commercially in 2005 at a rent which the Property Section expects will pay back the refurbishment costs of both properties in around eight years. The Property Section also considered moving another member of staff to a vacant property within the secure perimeter of Hampton Court Paddocks to free up a property that could be let commercially. The Property Section decided, however, not to proceed as it estimated it would take 25 years to pay back the associated refurbishment costs through rental income.

6 Property Section's staff costs in 2008 prices

Expenditure (£m)



Source: The grant-in-aid for the maintenance of the Occupied Royal Palaces in England Annual Report and Accounts

NOTE

Figures have been adjusted to 2008 prices using average earnings indices.

³ *The Disposal of Historic Buildings: Guidance note for government departments and non-departmental public bodies* (Department for Culture, Media and Sport, 1999).

⁴ *Maintaining the Royal Palaces*, Committee of Public Accounts, Eighth Report of Session 2000-01 (HC 77).

19 The Household told the Committee in 2000 that 205 self-contained apartments were available for staff, including 39 for private secretaries and officials and 56 for military knights and pensioners. While the Household planned to reduce the number of private secretaries and officials in accommodation to 11, it considered reductions could only be made as people left or retired. Although the Household changed its grading structure in 2003, a comparison of roles shows that of 139 staff accommodated in July 2008, 33 would be considered private secretaries or officials under the previous grading structure. As at July 2008, 217 self-contained properties on the Estate, including 20 outside the secure perimeter, were available for use by members of the Royal Family and current and former employees (**Figure 7 overleaf**).

20 Since the Committee reported in 2001 the Property Section has increased the number of properties available to let from 16 to 36. The total annual rent received from let properties has increased from £418,000 to £1 million (an increase of 96 per cent in 2008 prices).⁵ The 36 includes 12 properties which are inside the secure perimeter of the Estate and cannot be let on the open market. The Property Section lets these properties to organisations with the necessary security clearance on negotiated rents.

21 Of the 24 remaining properties the Property Section lets, 12 are rented through agents at market rates and seven are managed by the Property Section and rented under negotiated terms. As at July 2008 the remaining five properties outside the secure perimeter were being refurbished and the Property Section expects to let these through an agent during 2008-09. The Property Section generally seeks payback of refurbishment costs within five to eight years.

22 The Property Section maintains one property outside of the secure perimeter that does not generate income. A building in the Royal Mews at Hampton Court which is used as a stable and accommodation is occupied rent free by the Horse Rangers Association Charity.

23 It costs the Property Section around £1.4 million each year to refurbish and maintain residential accommodation. The Household explained to the Committee of Public Accounts in 2000 that staff entering into their contract of employment after 1991, when the Royal Household assumed responsibility for maintaining the Palaces, were charged 16.7 per cent of their net salary towards the cost of their accommodation. Since 2000, the number of residents receiving free accommodation

BOX 2

Sale of land at Kensington Palace

In 2005-06 the Property Section raised £2.5 million from the sale of land forming part of the grounds at Kensington Palace.

Although the land was held by the Secretary of State for Culture, Media and Sport subject to the Crown Lands Act 1702, the Department and the Property Section agreed to share the proceeds of the sale. The Department would receive £0.5 million and the Property Section would receive £2 million to use towards the project to redevelop and refurbish staff accommodation at Buckingham Palace Mews.

As part of the project, 17 apartments are being fully refurbished so they are suitable for use as single persons' accommodation. The project will also free up accommodation in Buckingham Palace which will be used as temporary office space while maintenance work is carried out. The Mews is within the secure perimeter of the Estate and one of the main aspects of the project is to create a new entrance to allow less restricted access to the accommodation. An inner security cordon will be created to prevent unauthorised access to the operational areas of the Mews. The work also includes:

- installing external walkways and a glazed canopy outside the principal garage;
- installing new boilers and heating systems;

- re-wiring to modern standards;
- installing secondary glazing to rooms overlooking main roads;
- redesigning and renewing all bathrooms and kitchens; and
- complete internal and external redecoration.

The project was due to begin in September 2006, but the start of work was delayed as the tenders initially received exceeded the pre-tender estimate. In discussion with the potential contractors, the Property Section spent time redesigning the project specification to bring the cost of the work to within budget and invited contractors to re-tender for the project in March 2007. The work on the Mews began in autumn 2007 and is due to be completed in spring 2009. The let tender amount is £2 million and £0.6 million had been spent on the project by the end of March 2008.

The Property Section has not yet received the remaining funding from the Department because of year end budgeting arrangements. If the balance of funding is not received the Property Section will have to pay for the project using its grant-in-aid and other planned projects may be delayed.

Source: The Property Section's project records

⁵ Based on 2008 prices using Retail Price Indices.

has reduced from 70 to 42, including 15 pensioners, 13 military knights, nine staff and five members of the Royal Family. In 2000 the staff who did not contribute towards the cost of their accommodation generally entered into their contracts of employment before 1991.

Maintenance objectives for the Palaces

24 The high level objectives set by the Department (Paragraph 2) should dictate how the Property Section maintains the Palaces. Such objectives should be broken down into specific actions against which progress can be measured.⁶ In addition to the high level objectives and Key Performance Indicators established by the Department, the Property Section sets its own operational objectives and presents these to the Department each year.

Figure 8 shows the Department's high level objectives, the Property Section's operational objectives and the Key Performance Indicators on which the Property Section reports to the Department. In 2007-08, the Property Section achieved all Key Performance Indicator targets.

25 The Department's high level objectives, the Property Section's operational objectives and the Key Performance Indicators should be aligned. Otherwise there is the risk of resources not being concentrated on the activities needed to meet the Department's objectives, and lack of clarity about whether those objectives are achieved.

26 Figure 8 shows that two of the Department's high level objectives focus on achieving value for money from the way maintenance work is organised and procured. These objectives link to the Property Section's operational objectives and the Key Performance Indicators on utility costs and project management in particular.

27 The Department's other high level objective focuses on the condition of the Palaces, and the need to maintain them in line both with operational requirements and their royal, architectural and historic status. Although there is a link between this objective and the operational objective to maintain the Estate professionally, none of the Key Performance Indicators measures the outcomes achieved. The Department's objective appropriately focuses on the desired outcomes but the Department and the Property Section have not yet agreed how performance will be assessed. In April 2007 the Department and the Property Section agreed that the Key Performance Indicators should also take into account the quality and condition of the Estate but they have not yet been changed. The Department does not therefore currently have a basis for assessing whether its high level objective on condition is being achieved.

7 Self-contained properties available for use as accommodation in July 2008

Self-contained properties available for:	Total properties	Inside secure perimeter	Outside secure perimeter
Members of the Royal Family	6	6	0
Staff	139	134	5
Pensioners	32	19	13
Military knights	13	13	0
Vacant	27	25	2
Total	217	197	20

Source: National Audit Office analysis of the Property Section's records

28 The Property Section has, however, put in place the key elements of a sound maintenance strategy. It assesses the Estate's condition when constructing its forward programme, and is defining the condition required to meet operational requirements, although further work is required (Paragraph 33). To determine priorities within the available funding the Property Section gives less priority to projects which are purely presentational but nonetheless preserve the royal, architectural and historic status of the Palaces. This decision is not reflected in the Property Section's operational objectives and is not made explicit in its reporting to the Department.

Assessing the condition of the Palaces

29 The *Protocol for the Care of the Government Historic Estate*⁷ sets out best practice for the stewardship of heritage estates and recommends that each historic building is subject to a condition survey and report every four years.

30 In 2006 the Property Section changed how it inspects the condition of the Palaces. Previously, the Property Section commissioned conservation specialists to inspect the Estate every five years with the agreement of the Department. The Property Section discontinued these inspections as it found them costly and too detailed to provide a useful strategic overview of the condition of the Estate.

⁶ *Choosing the right FABRIC – A framework for performance information* (HM Treasury, Cabinet Office, National Audit Office, Audit Commission, Office for National Statistics).

⁷ *Protocol for the Care of the Government Historic Estate 2003* (Department for Culture, Media and Sport).

8 High level objectives, operational objectives and Key Performance Indicators

High Level Objectives set by the Department	Operational Objectives set by the Property Section	Key Performance Indicators	Target 2007-08 (%)	Actual 2007-08 (%)
Maintain Palaces to a standard consistent with operational requirements and royal, architectural and historic status in a manner which ensures value for money	To professionally conserve, repair and maintain the Estate	Movement in voted revenue grant-in-aid receivable in:		
		absolute	0	0
		real terms	-4	-2.8
		Fees and other indirect costs as a percentage of construction costs	18.5	17
		Projects with a cost of £25,000 or more completed with a cost overrun of no more than 5 per cent of the tender let amount	75	76
		Projects with a cost of £25,000 or more completed with a cost overrun of no more than the greater of £20,000 and 10 per cent of the tender let amount	100	100
To organise and obtain works in the most economic, efficient and effective way to achieve financial and performance targets	Strengthening a culture of excellence	Percentage of fixed price contracts over £25,000 or more let without competitive tendering	0	0
	Recruitment, retention and development of professional staff	Movement in costs in real terms:		
		telephones	0	-21
		electricity	0	-7.3
		gas	0	-0.1
		water	0	-0.3
To seek to contract in the most economical and efficient manner for the supply of all services	Improvements to customer care, efficiency and adaptability	Percentage of supplier payments made within:		
		30 days	85	93
		40 days	95	97
		50 days	97	98
	Development of a culture of Health and Safety across the Royal Household	Number of staff	110	107
		Average number of weekly automatic fire detection activations	8	6

Source: Memorandum of Understanding, Royal Household Property Section Five Year Plan 2007-08 and the grant-in-aid for the maintenance of the Occupied Royal Palaces in England Annual Report and Accounts 2007-08

31 The Property Section now divides areas of the Estate into categories that determine how frequently those areas are inspected as shown in **Figure 9**. The whole Estate is inspected at least every five years and around 70 per cent of the Estate is inspected annually. The Department agreed this change of approach on the basis that its consultants would periodically review the process for inspecting the Palaces. The Department's consultants carried out its first review in February 2007 (Paragraph 34).

32 To reduce the cost and improve the flexibility of scheduling inspections the Property Section now uses in-house staff. The Property Section recognises that relying on in-house staff to do the inspections may not provide an objective view of the condition of the Estate. It seeks to manage this risk by assigning staff to inspect areas with which they are less familiar. Another way of introducing an independent perspective would be to exchange staff with other organisations responsible for maintaining historic estates.

33 The Property Section has prepared guidance for staff that outlines what the inspections should cover. Staff are required to give each project a rating for the condition and impact of not doing the work to inform the priority of the project. The intended condition of the Estate ranges from 'good' to 'excellent' but these terms and the criteria for condition and impact have not been defined further and could be interpreted differently by staff.

34 While the Property Section plans the frequency of inspections according to need, they do not result in a documented comprehensive view of the condition of the Estate. In February 2007, the Department's consultants

reviewed the inspection process and suggested that a strategic view of the condition of the Estate be developed. The Property Section has responded to this recommendation in part by developing a ten year forward maintenance plan (Paragraph 36), but as the plan is used to forecast expenditure it does not capture information about areas of the Estate that are in good condition. The Property Section is looking to develop a separate 'survey of condition' which will cover every part of the Estate.

Setting maintenance priorities

35 The *Protocol for the Care of the Government Historic Estate* (Paragraph 29) recommends taking a strategic approach to planning maintenance. The Property Section previously planned maintenance projects five years ahead, but in 2008 switched to a longer term view and prepared a plan for the next ten years. The plan is to be updated and submitted to the Department annually.

36 The Property Section has also introduced a more rigorous approach to planning that involves assigning risk-based traffic light ratings to maintenance projects to determine their priority based on condition and impact of not doing the work (Paragraph 33). Currently some projects in the Property Section's forward plan are scored as being lower risk than some work that is not in the plan. One example is the project to repair the Victoria and Albert Mausoleum, which is on English Heritage's Buildings at Risk register. As the Property Section considers the project, which it estimates would cost around £3 million, to be a lower priority within the available funding, it is not in the forward plan despite being scored at the highest level of risk. Projects with

9 Frequency and coverage of inspections by area

Frequency of inspection	Examples of rooms or areas inspected	Rationale for frequency of inspection
Annual	Royal apartments State rooms Commercial lets Roof areas	<ul style="list-style-type: none"> ■ Areas visited by members of Public ■ Impact on Royal Family ■ Areas where functions frequently held
Every two years	Semi State rooms Senior office areas Building fascias	<ul style="list-style-type: none"> ■ Guest accommodation
Every three years	General office areas Paths and driveways	<ul style="list-style-type: none"> ■ Regularly occupied so expect faults to be reported as they occur
Every four years	Workshops Boiler Houses	<ul style="list-style-type: none"> ■ Areas are constantly in use
Every five years	Staff accommodation	<ul style="list-style-type: none"> ■ Area under constant scrutiny by staff

Source: The Property Section's Inspections Policy

lower risk ratings which are included in the forward plan may be routine maintenance work which if left would deteriorate. At present, however, there is no audit trail between the condition and risk ratings assigned to projects and the priorities in the Property Section's forward programme, because the process is still being rolled out.

37 In implementing its forward programme the Property Section tends to find that planned work needs to be deferred. For example, where the Property Section identifies a risk to health and safety which needs to be addressed immediately, other jobs in the programme will be delayed. An example is the decision in 2007 to bring forward plans to repair the stone work on the inner walls of the Buckingham Palace Quadrangle when pieces of stone fell onto the courtyard below.

38 The extent to which projects are delivered in line with plans indicates whether an organisation's maintenance plans are strategic or reactive and the reasons why. There may be a range of reasons why plans change. For example changing priorities, project costs or timescales for completion will all impact on delivery. Our review of the 2006-07 plan showed that of 144 projects which had already begun and were due to be completed in 2006-07, 53 projects (37 per cent) were not delivered until 2007-08 or later and 13 were not delivered until 2008-09. Although the Property Section tracks the number of projects which have been brought in or deferred during the year, there is no record of the overall lessons to inform future plans. Routine monitoring and analysis of the common reasons for changes to plans could serve as a check on the inspection and planning processes, by testing whether problems could have been identified in advance and costs have been accurately estimated.

39 The Royal Household told the Committee of Public Accounts in December 2000 that it had addressed the maintenance backlog which it inherited when it became responsible for maintaining the Estate.⁸ The Committee highlighted the risk that a maintenance backlog might build up as a result of the reduction in funding to maintain the Palaces. The Department told the Committee that it asks its consultants to look at whether a backlog of work is developing. In July 2008, after the Property Section placed a value on the maintenance backlog, the Department asked its consultants to comment on the measurement of the backlog. The Property Section stated in its annual

report and accounts published in June 2008 that it had a £32 million maintenance backlog. The projects currently classified to the backlog have been outstanding for an average of six years and some, such as the repair of the Victoria and Albert Mausoleum, were identified 14 years ago.

40 As the Property Section intends to use the backlog figure as a baseline to measure how effectively it manages the backlog over time, it is important that the figure is based on clear and consistently applied definitions. The Department and the Property Section, however, have not yet agreed criteria for assessing backlog or a plan for managing it. Currently, the Property Section's calculation of backlog depends to a large degree on its judgement about the nature of the work, when work should be scheduled and known and anticipated funding constraints:

- The backlog figure includes £26 million of projects that in the Property Section's view should already have been completed but have not been and are not included in the ten year forward plan.
- The backlog figure also includes £6 million of projects that the Property Section considers should be scheduled at some point in the next ten years (the period of the Property Section's forward plan) but have not been included in the forward plan.
- The Property Section has estimated there are in excess of £20 million of projects which are not included in either its forward work plan or backlog. It explained in its latest Annual Report, that there is no allowance in the backlog figure for projects which the Property Section considers to be presentational such as the redecoration of State Rooms at Buckingham Palace or cleaning the facades of the Quadrangle at Buckingham Palace. The Property Section is still in the process of identifying such projects and does not report the value of this outstanding work in the Annual Report.

41 The backlog figure on its own does not provide an assessment of how critical it is to achieving the Department's objective to maintain the Palaces in line with operational requirements and their royal, architectural and historic status (Figure 8, page 15). The Property Section has not documented the practical impact of not addressing the backlog of work.

⁸ Evidence Session, *Maintaining the Royal Palaces*, 18 December 2000.

Managing maintenance projects

42 Two of the high level objectives the Department sets the Property Section relate to contracting and managing work efficiently (Paragraph 2). The Department's assurance over the Property Section's performance comes from project reviews carried out by its consultants and the Property Section's reporting against the Key Performance Indicators. The Department also sees the results of post-completion reviews which the Property Section carries out (Paragraph 48).

43 The Key Performance Indicators for project management focus on whether projects are delivered within the contract price and the cost of project administration and fees as a proportion of total costs. The Property Section's performance against these indicators has remained relatively unchanged over the last eight years (Figure 10).

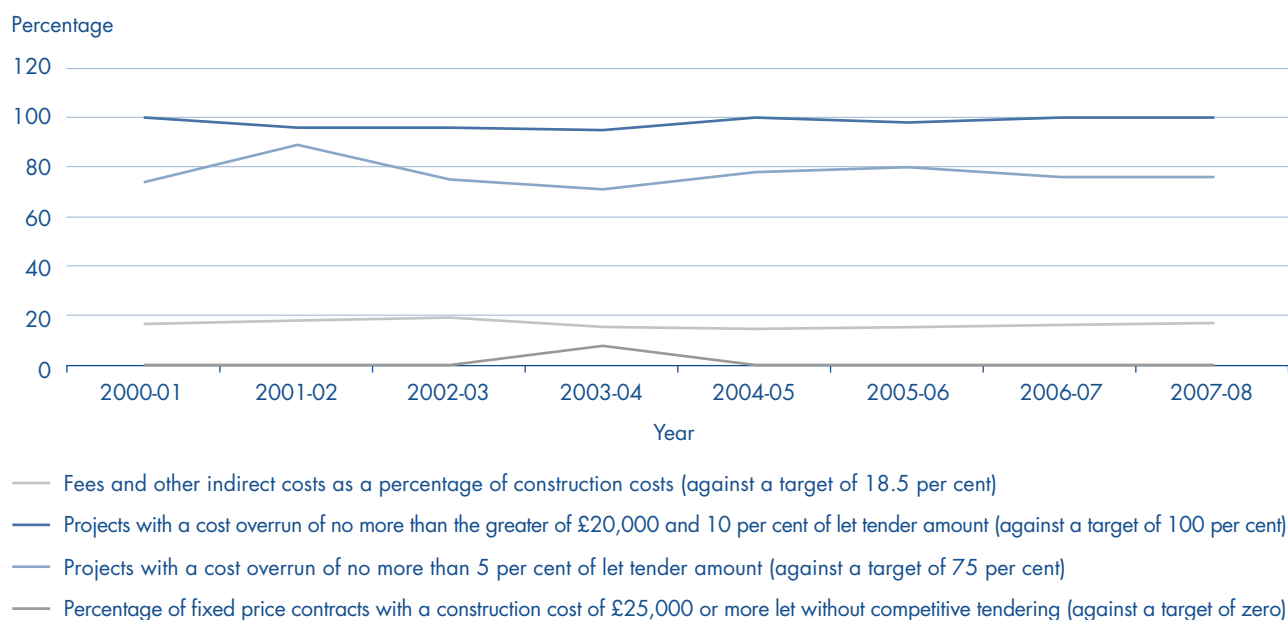
44 The Property Section contracts out all but reactive repairs and some routine daily maintenance and has detailed instructions for managing projects. The Director of Property Section signs off projects at key stages. One of the Key Performance Indicators on which the Property Section has to report annually to the Department is the

percentage of fixed price contracts costing £25,000 or more that have been let without competitive tendering. In 2007-08 all such contracts had been let competitively. Experienced in-house staff project manage maintenance work and the Property Section brings in specialist expertise such as architects, engineers or quantity surveyors to advise on particularly complex or large projects. The Property Section has a Key Performance Indicator to measure the percentage of indirect costs, such as staff time and specialists fees, as a proportion of construction costs and achieved the target of 18.5 per cent in 2007-08.

45 In 2007-08 the Property Section carried out 59 maintenance projects costing £25,000 or more with a total value of £4.3 million. Analysis of the Property Section's performance against its key indicators in its audited accounts shows that in 2007-08:

- Against a target of 75 per cent, 76 per cent of projects were completed within five per cent of the let tender amount. The final cost of 14 projects that did not meet the key performance indicator exceeded the let tender amount by a total of £118,000, ranging from seven per cent (£6,000) to 50 per cent (£11,000).

10 Performance against property maintenance indicators since 2000-01



Source: The grant-in-aid for the maintenance of the Occupied Royal Palaces in England Annual Report and Accounts

NOTE

In 2007-08 the target for projects with a cost overrun of no more than five per cent of let tender amount increased from 70 per cent to 75 per cent and the target for fees and other indirect costs as a percentage of construction costs increased from 18 per cent to 18.5 per cent. Targets on the other two indicators are unchanged.

- 100 per cent of projects were completed within the greater of 10 per cent of the let tender amount and £20,000. Final project costs ranged from 16 per cent less (£20,000) to 50 per cent more (£11,000) than the let tender amount.

46 As well as monitoring whether projects are delivered within the tender amount, to be able to plan effectively the Property Section needs an appreciation of how accurate the initial cost estimates which come from the inspections of the Estate tend to be. These estimates are important because they influence how much work the Property Section can accommodate in its forward programme, the priorities in the programme and the calculation of backlog. As the Property Section does not routinely analyse how the initial cost estimates of projects compare with the final costs, we looked at seven projects. This test check showed that initial cost estimates on some projects tended to be over optimistic, although the total final cost was two per cent less overall than the total let tender amount (**Figure 11**).

47 There can be good reasons why initial cost estimates can increase. Some projects may cost more than the initial estimates because the type and location of the work mean

the Property Section cannot assess the full extent of the work required at the planning stage, which may have been carried out several years previously. For example, the cost of renewing the chapel roof at Buckingham Palace increased by 15 per cent once the condition of the underlying boards became visible. Maintenance work also has to be co-ordinated around functions and events held in the Palaces. In some cases, when the Property Section begins to plan projects in more detail it may also decide to carry out additional work to, for example, minimise disruption and make future cost savings by carrying out a number of projects in one area at the same time. **Boxes 3 to 5 overleaf** provide more detail on the three projects we reviewed which had the largest final costs.

48 It is good practice to carry out post-completion reviews on a sample of projects, and the Property Section does so for projects which are particularly complex. The reviews consider the quality of work, difficulties encountered, overall value for money and success of the project. Lessons learned are shared with all Property Managers on the Estate at project review board meetings and the completed reviews are shared with the Department.

11 Analysis of initial cost estimates, tender values and final costs

Project	Initial cost estimate (£000s)	Total estimated cost when tender let (£000s)	Final cost (£000s)	Difference between initial and final cost		Difference between total estimated cost when tender let and final cost	
				Value (£000s)	%	Value (£000s)	%
Refurbishment of Apartment Eight, Kensington Palace	250	479	524	+274	+110	+45	+9
Replacement of boilers and calorifiers at Clarence House	140	285	301	+161	+115	+16	+6
Flat plate heat exchangers	127	255	215	+88	+69	-40	-16
Slate re-roofing and lead guttering	182	256	199	+17	+9	-57	-22
Finance office refurbishment	174	91	91	-83	-48	0	0
Compliance with the smoking ban	41	29	29	-12	-30	0	0
Improvements to press office connections	14	20	21	+7	+50	+1	+5
Total	928	1,415	1,380	+452	+49	-35	-2

Source: National Audit Office analysis of projects

NOTE

The projects have been ordered by largest final cost.

BOX 3**Refurbishment of Apartment Eight at Kensington Palace**

As the former residence of The Prince and Princess of Wales, Apartment Eight had been empty for over ten years. In 2007-08 the Property Section decided to refurbish and let the ground and first floors as office accommodation for four of The Prince of Wales's charities. These organisations pay rent which will pay back the cost of refurbishment in approximately seven years.

Initial cost estimates for the project were £250,000 including VAT. The let tender amount increased, however, to £479,000 because the scope of the work was extended to include the refurbishment of the whole second floor and the boilers were in a worse condition than anticipated.

The final cost of the project was £524,000. Costs had increased since the tender was let because the scope of the work required had been estimated without having full access to all rooms. The full extent of the mechanical work required also only became visible once the project began.

Source: National Audit Office analysis of project records

BOX 4**Replacement of Clarence House boilers**

In June 2007, the Property Section let a contract for replacing boilers in Clarence House. The boilers had reached the end of their useful life and the heating and hot water supply was no longer reliable. The work was initially estimated to cost £140,000 including VAT but the scope of the project increased to allow solar technology and bio-fuels to be used in the future. The full cost of removing asbestos (£35,000) was also included in the let tender amount of £285,000.

The final cost of the project increased to £301,000, representing a six per cent increase on the tender amount, because unforeseen changes to The Prince of Wales's Household's calendar meant that temporary boilers were needed to supply hot water facilities to Clarence House.

Source: National Audit Office analysis of project records

BOX 5**Installation of flat plate heat exchangers 2006-07**

In July 2007, the Property Section began a project to replace heat exchangers supplying heating and hot water to part of Buckingham Palace with high efficiency plate heat exchangers which heat water on demand. Pressure vessels on the existing exchangers needed to be replaced and parts were becoming increasingly obsolete.

The new heat exchangers require less floor space and will reduce energy and maintenance costs and improve reliability.

Initial cost estimates for the project were £127,000 including VAT and fees for mechanical and electrical engineers and were based on a similar project in another part of the Palace. The exchangers on the earlier project, however, serviced a different area of the Palace and the requirements placed on them were less. The Property Section was also advised that all waste from the project had to be treated as contaminated which meant disposal costs were more than anticipated. Final costs were £215,000, representing a 69 per cent increase on the initial cost estimates.

Source: National Audit Office analysis of project records

APPENDIX ONE

The methods we used

1 This report is about whether the maintenance of the Occupied Royal Palaces delivers value for money. In doing our work, we examined:

- the funding available to maintain the Estate;
- how the Property Section plans and delivers its maintenance work;
- the impact running costs and income generated from the Estate had on the funding available; and
- how the Department for Culture, Media and Sport assesses the Property Section's performance.

2 The main elements of our fieldwork, which took place between June and September 2008, are listed below:

- Review of key planning documents, inspection reports, post project reviews and other papers;
- Examination of maintenance projects;
- Semi-structured interviews with the Property Section, the Department for Culture, Media and Sport and English Heritage;
- Site visits to Buckingham Palace and Windsor Castle;
- Financial and quantitative analysis of income and expenditure and maintenance work plans;
- Engaging consultants to review and advise on the Property Section's approach to maintaining the Estate and the Department's oversight; and
- Review of Estate management at other organisations responsible for maintaining historic buildings.

Document review

3 We reviewed key documents produced by the Household's Property Section, the Department and the Department's consultants, Watts. These included:

- The Financial Memorandum and Memorandum of Understanding agreed between the Department and the Household to examine how well the responsibilities and objectives for maintaining the Palaces have been established.
- The Property Section's instructions for inspecting the Palaces and managing maintenance work; inspection reports; and post project reviews carried out by the Property Section and Watts to examine how clear the instructions are, the nature of the condition surveys carried out and whether maintenance work is being managed effectively;
- The working papers of the Property Section's financial auditors, KPMG LLP in accordance with the arrangements described in Appendix 2. In particular, we reviewed KPMG's examination of maintenance projects and analysis of expenditure, as set out below; and
- The Property Section's plans and updates on the procurement and construction of the Queen Mother Memorial and Watts' reviews of project progress.

Project Examination

4 As part of the financial audit of the 2007-08 Annual Report and Accounts, KPMG LLP tested 15 maintenance projects to check compliance with the Property Section's desk instructions and separately reviewed expenditure on 18 projects. We considered the results of KPMG's testing alongside our own review of maintenance projects and findings from the document review and semi-structured interviews.

5 We selected a sample of seven recent maintenance projects and looked at project files to check whether final project costs were significantly more or less than the initial budget or the let tender value and the reasons for this. There was insufficient information, however, to evaluate whether projects were delivered to the timetable proposed. The projects were selected by the Property Section in discussion with us to give a broad range of projects, including some higher cost projects.

Semi-structured interviews

6 During the course of our fieldwork, we interviewed the Royal Household's Deputy Treasurer as well as staff in the Household's Property Section, including the Director of Property Services and Property Managers from Buckingham Palace and Windsor Castle. Our interviews focussed on how the Estate is used; the process for identifying the condition of the Estate, prioritising, planning and managing maintenance projects; and how the funding available to the Property Section for maintenance is maximised.

7 We interviewed staff in the Department about the Department's role in setting objectives and performance indicators for maintaining the Occupied Royal Palaces and how it gets assurance that the Property Section is meeting these objectives. We also discussed the Queen Mother Memorial project and the Department's arrangements for monitoring progress.

8 We also spoke to the Government Historic Estates Unit (GHEU) of English Heritage which provides advice and guidance to government departments as well as to the Household's Property Section to understand the extent to which the Property Section consults with English Heritage about its maintenance projects.

Site visits

9 We visited Buckingham Palace and Mews, Hampton Court Mews and Paddocks, Windsor Castle and Windsor Home Park, including staff accommodation and properties which were being refurbished to let, to develop our understanding of Estate management in practice and the type of maintenance work the Property Section carries out.

Financial and quantitative analysis

10 We analysed the Property Section's work plans for three years, from 2006-07 to 2008-09 to examine the extent to which work was delivered in line with plans. We also reviewed the 2008-09 ten year plan in detail to determine if the scores assigned for risk and condition determined the priorities in the forward plans and to identify what the Property Section's maintenance backlog comprised and how the backlog had been calculated.

11 We reviewed the Property Section's Annual Report and Accounts from 2000-01 to 2007-08 to identify trends in income and expenditure, including running costs. Expenditure and income was adjusted to 2008 prices using Retail Price Indices provided by the Office of National Statistics. Staff costs were also separately adjusted to 2008 prices using average earnings indices provided by the Office of National Statistics. In carrying out this review we also looked at KPMG's analysis of income and expenditure as part of its audit of the Property Section's 2007-08 accounts.

12 We also reviewed the formulae for calculating the visitor income from Windsor Castle, and the income from letting properties versus the costs of maintaining them, to determine whether the Property Section is maximising other sources of income.

Engaging consultants

13 Following a competitive tender exercise we engaged property consultants with experience in the heritage sector, Drivers Jonas LLP to:

- review the Property Section's approach to identifying and prioritising maintenance work and assessing completed work; and
- examine the Department's approach to gaining assurance that the Estate is well maintained and the work carried out efficiently.

The review included an examination of technical documents such as surveyor inspection reports, project plans and post project reviews. Although the review was primarily desk based, Drivers Jonas LLP also discussed the Property Section and Department's processes with the Household's Director of Property Services, the Property Manager for Buckingham Palace and the Department's consultants, Watts.

Review of industry practice

14 We looked at some of the processes other organisations responsible for maintaining historic buildings have in place to develop our understanding of how historic estates may be managed. We gathered qualitative information through a combination of interviews with estate managers, questionnaires and desk based research which focussed on how the organisations identify, prioritise and manage their maintenance work.

15 We selected the following organisations on the basis of the size of their Estates and the historic importance of the buildings:

Interview

- Historic Royal Palaces
- Parliamentary Estates
- English Heritage
- The National Trust

Questionnaire

- Historic Scotland
- Cadw

Desk based research

- Defence Estates

APPENDIX TWO

The arrangements for National Audit Office access

Background

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.

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 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

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.

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.

Design and Production by
NAO Marketing & Communications Team
DP Ref: 008819

This report has been printed on Consort Royal Silk and is produced from a combination of ECF (Elemental Chlorine Free) and TCF (Totally Chlorine Free) wood pulp that is fully recyclable and sourced from carefully managed and renewed commercial forests. The range is manufactured within a mill which is registered under the BS EN ISO 9001 accreditation, which provides the highest standard of quality assurance.



Published by TSO (The Stationery Office) and available from:

Online

www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: customer.services@tso.co.uk

Textphone 0870 240 3701

TSO Shops

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,
London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax Orders 020 7219 3866

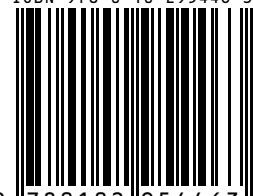
Email bookshop@Parliament.uk

Internet bookshop.Parliament.uk

TSO@Blackwell and other Accredited Agents

£14.35

ISBN 978-0-10-295446-3



9 780102 954463