

**The Civil List**  
*Annual Report 2004*



# CONTENTS

	Page
Introduction	12
Summary	13
Operating and Financial Review	14
Future Developments	17
Managing the Royal Household	18
Income and Expenditure Account	20
Balance Sheet	21
Cash Flow Statement	22
Civil List Reserve	23
Notes to the Accounts	24
Statement on Internal Controls	33
Statement of the Keeper of the Privy Purse's Financial Responsibilities	34
Report of the Auditor to the Chancellor of the Exchequer	35
Appendices:	
Additional Notes to the Income and Expenditure Account	37
Five Year Information	38
Accounts Direction given by the Treasury in respect of the Civil List	39

# INTRODUCTION

The Civil List is the funding provided by Parliament to enable The Queen to undertake her duties as Head of State; it meets the central staff costs and running expenses of Her Majesty's official Household.

The Civil List is provided under the terms of the Civil List Acts 1952, 1972 and 1975 in return for the surrender by The Queen of the income from the Crown Estate and other hereditary revenues.

Civil List expenditure and the sums needed to meet it are subject to review by the Royal Trustees (the Prime Minister, the Chancellor of the Exchequer and the Keeper of the Privy Purse), who are required to submit reports to the Treasury, which are then laid before Parliament, at least once every ten years. The last Royal Trustees Report was published on 4th July 2000 (TSO ref.: ISBN 0105568368).

Ten yearly, rather than annual, reports to Parliament were considered more consistent with the honour and dignity of the Crown by the 1971 Select Committee on the Civil List. While ten yearly Royal Trustees Reports, which form the basis for Parliament's consideration of the amount of the Civil List for the next ten years, remain appropriate and are the legislative requirement, the Royal Household believes that it may be helpful, and in line with its commitment to transparency and accountability, if annual accounts (rather than a full Royal Trustees Report) are published to show how the Civil List is being spent on a year by year basis.

The fourth published annual accounts for the Civil List, which are for the year to 31st December 2004, are set out in this report. The accounts are prepared in a form directed by the Treasury Accountant, in accordance with Section 9 of the Civil List Audit Act 1816.

## SUMMARY

Civil List net expenditure for 2004 amounted to £10.6 million (2003 £9.9 million). The increase in net expenditure is analysed as follows:

	£m
Net expenditure in 2003	9.9
Increases in insurance premiums, contract cleaning and depreciation	0.2
Inflation and pay increases	0.4
Net increase in other spending	0.1
Net expenditure in 2004	<u>10.6</u>

The Civil List meets the central staff costs and running expenses of The Queen's official Household. Of the £10.6 million, £7.6 million (71%) is the salary cost of the 307 full-time equivalent staff charged to the Civil List.

Expenditure from the Civil List, in addition to enabling The Queen to undertake Her Majesty's constitutional duties as Head of State, helped support The Queen in fulfilling a programme of tours, garden parties, receptions and walkabouts.

Visits overseas by The Queen during the year have included a State Visit to France in April to mark the centenary of the Entente Cordiale and a State Visit to Germany in November.

The Queen also undertook 419 engagements including visits to cities and towns in England, Scotland, Wales and Northern Ireland, entertained around 39,000 people to six Garden Parties, held 27 investitures for around 2,800 people (approximately 11,200 including their guests), sent around 28,000 anniversary messages and handled over 55,000 items of correspondence. There were also inward State Visits by the President of the Republic of Poland in May, the President of the French Republic in November to mark the centenary of the Entente Cordiale and the President of the Republic of Korea in December.

# OPERATING AND FINANCIAL REVIEW

Brief descriptions of the Lord Chamberlain's and the Departments' responsibilities paid for from the Civil List are set out below.

## **Lord Chamberlain**

The Lord Chamberlain is responsible for overseeing the conduct of the business of the Household as a whole.

## **Private Secretary's Office**

The Private Secretary's Office is responsible for informing and advising The Queen on constitutional, governmental and political matters, organising The Queen's domestic and overseas official programme, organising and co-ordinating travel arrangements, co-ordinating and initiating research to support engagements by Members of the Royal Family and responding to correspondence from members of the public.

The Press Office, which reports to the Private Secretary, briefs the national, international and regional media on the official role of The Queen and issues relating to the Royal Family. It arranges media facilities for official Royal visits in the United Kingdom and overseas, and for Royal involvement in State occasions; in the last year, the Press Office organised facilities for a major BBC documentary series on the role of Windsor Castle. In addition, the Press Office responds to media enquiries and telephone inquiries from members of the public. It prepares and disseminates information about the Monarchy and the Royal family through press releases, briefing notes and daily updates on the home page and the Royal Insight news magazine on the Royal web site.

The ongoing task for the Department in 2004 was to continue to refine The Queen's programme, providing a mix of national engagements; "county days" around the UK; themed days and themed receptions; and smaller morning and afternoon engagements. Highlights of Her Majesty's programme included:

- A State Visit to France to mark the centenary of the Entente Cordiale, and a return visit by the President of the French Republic, and a State Visit to Germany.
- A number of engagements to mark the 60th Anniversary of the D-Day landings.
- County visits in Norfolk, Oxfordshire, Surrey, Gloucestershire, Liverpool, Isle of Wight, Yorkshire, Dorset, Manchester and Essex.
- Visits to Scotland and Wales including opening the new Scottish Parliament; and
- A series of visits to inner- and outer- London boroughs, including one to a Sikh temple.

### **Privy Purse and Treasurer's Office**

The responsibilities of the Privy Purse and Treasurer's Office paid for from the Civil List include budgetary control and the preparation of accounts, payment of invoices and recoveries from third parties, which include separately funded areas of the Royal Household. In addition, it is responsible for the provision of Payroll, Personnel, Information Systems Management and Internal Audit Services to the rest of the Royal Household. There are also responsibilities in respect of the Privy Purse, which are maintained separately from the Civil List aspects.

Further development of Personnel and Information Systems Management has been undertaken in order to provide ranges of service appropriate to an organisation the size of the Royal Household. Developments during the year have included:

- The continued development of the finance systems including the introduction of automated purchase order processing and invoice scanning;
- Key Personnel achievements in the year included a review of recruitment processes and the development of new internal communications initiatives and performance management procedures;
- IT systems were steadily developed during the year with a remote access solution being developed and implemented with Windsor and Balmoral Castles, Sandringham and Highgrove Houses now connected to all systems on the main London network; and
- The Audit Committee has continued to develop throughout the year with the audit approach of the Household now being risk based, with Household wide risk registers having been prepared and presented to the Lord Chamberlain's Committee.

### **Master of the Household's Department**

The Master of the Household's Department, in association with the Private Secretary's Office and the Lord Chamberlain's Office, is responsible for the arrangements for The Queen's official entertaining both at home and overseas. This includes the formulation of guest lists and despatch of invitations for receptions, lunches, dinners and banquets held in all the Royal Residences and extends to catering, cleaning, housekeeping and service of all these events.

In addition to this function, the Master of the Household's Department also includes the craftsmen responsible for maintaining and restoring furniture and fabrics in use within the Royal Residences.

### **Lord Chamberlain's Office**

The Lord Chamberlain's Office is responsible for all the ceremonial aspects of engagements which take place in and around The Queen's official residences, including State Visits, the State Opening of Parliament, Royal Weddings and Funerals, Investitures and Garden Parties. These events are organised in close association with the Master of the Household's Department.

There were two inward State Visits by The Presidents of Poland and the Republic of Korea, the funeral of Princess Alice, Duchess of Gloucester and a visit by the President of the French Republic to mark the centenary of the Entente Cordiale, including the production of 'Les Miserables' at Windsor Castle.

Six Garden Parties were held at Buckingham Palace and the Palace of Holyroodhouse and were attended by approximately 39,000 people. In addition to the four 'normal' Garden Parties there were additional ones for the Royal Society for the encouragement of Arts and one for the Not Forgotten Association.

27 Investitures were held at Buckingham Palace, the Palace of Holyroodhouse, Windsor Castle and Cardiff, during which around 2,800 people received honours.

There are on average 32 carriage horses stabled in the Royal Mews at Buckingham Palace. The main carriage processions are for the State Opening of Parliament, State Visits, Trooping the Colour and Royal Ascot. Carriages are also used for the presentation of credentials by Ambassadors and High Commissioners.

# FUTURE DEVELOPMENTS

Developments planned for the year to 31st December 2005 include the following:

## **Information systems**

Over a five year period, investment of up to £5.6 million is planned for the Royal Household as a whole, of which around £2.8 million would be borne by the Civil List, in order to develop the IT infrastructure and the information systems that operate on it.

There will be continuing improvements to the IT infrastructure with the development of a Remote Access Solution (RAS), which will provide staff working away from residences with access to the same IT systems used at the office. Smaller offices will be added to the Wide Area Network to give access to the Household's IT systems, and applications will be developed to improve access to information, communication and efficient working practices.

## **Security**

A Director was appointed during 2004 to act as the principal point of contact for all security matters. The Director is responsible for the co-ordination and implementation of Royal Household security plans, policies and procedures, working closely with those, internally and externally, responsible for security. The Director has also recruited a small administrative team who will undertake certain security vetting clearance procedures in-house, working with the Personnel Office. The Director will continue to undertake a valuable role in communicating and advising on aspects of security throughout the royal palaces and residences to ensure consistency of policy and practice. This appointment is consistent with a recommendation in the earlier Security Commission report.

## **Freedom of Information Act**

On 1st January 2005, the Freedom of Information (FOI) Act 2000 and the Freedom of Information (Scotland) Act 2002 came into force. As from that date, any person of any nationality can make a request to see information held by public bodies, except where special exemptions apply. The Royal Household is not a public authority within the meaning of the FOI Acts, and is therefore exempt from their provisions.

Despite its exemption from the FOI Acts, there has been a sharp increase in requests for information arising from this legislation and the Royal Household's policy is to provide information as freely as possible and to account openly for all its use of public money. To ensure that all queries are answered where possible and appropriate, a project board with members from across the Household will be formed.

# MANAGING THE ROYAL HOUSEHOLD

## **Operating Approach**

The Royal Household's overriding aim in managing the Civil List is to give excellent support to The Queen to enable Her Majesty to serve the nation as Head of State, while ensuring that best value for money is achieved.

Continuing improvement is an important part of the Royal Household's approach, together with being a good employer and providing good conditions and job satisfaction, operating in a businesslike and professional manner with a strong emphasis on value for money, recruiting from the best across all sections of the community, and being open and accountable in the use of public funds and resources.

## **Senior Management**

The general management of The Queen's Household is the responsibility of the Lord Chamberlain and the five Heads of the Household's Departments, reporting to The Queen. The Lord Chamberlain, the Heads of Department and two non-executive members are collectively referred to as the Lord Chamberlain's Committee. The Keeper of the Privy Purse, in his role as Treasurer to The Queen, is responsible for the Civil List and for the preparation of these accounts.

The Lord Chamberlain's Committee meets formally approximately once a month. Its members are as follows:

- Lord Chamberlain - The Lord Luce

Heads of Departments:

- Private Secretary to The Queen - The Rt.Hon. Sir Robin Janvrin
- Keeper of the Privy Purse - Alan Reid
- Master of the Household - Vice Admiral Sir Tom Blackburn (to 4th February 2005)  
- Air Vice Marshal David Walker (from 5th February 2005)
- Comptroller, Lord Chamberlain's Office - Lt. Col. Sir Malcolm Ross
- Director of the Royal Collection - Sir Hugh Roberts

Non-executive members:

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

The Lord Chamberlain's duties are not full time.

## **Audit Committee**

The Audit Committee comprises three members, Nigel Turnbull (non-executive Chairman and Chairman of the Turnbull Committee which produced the Corporate Governance report on Internal Control), Vice Admiral Sir Tom Blackburn (to 4th February 2005 when he was succeeded by Air Vice Marshal David Walker) and Brigadier Sir Miles Hunt-Davis, and reports to the Lord Chamberlain's Committee. It has overall responsibility for monitoring the

effectiveness of the system of internal control, including financial, operational and compliance controls and risk management. In undertaking its responsibilities, the Audit Committee has considered reports from both internal and external auditors and management, and will make recommendations to the Lord Chamberlain's Committee throughout the year.

### **Training and Career Development**

Considerable emphasis is placed on training and career development. Training is provided in-house and through external organisations covering vocational training, including NVQ and in-house diploma schemes, workplace skills training with a particular focus on IT, and personal development and general management skills training.

### **Employment Policies**

The Royal Household is committed to Equal Opportunities and all appointments and promotions are on merit. Applications for positions are invited from all sections of the community through recruitment open days and advertisements placed in national and specialist media and on the internet. Diversity in the workforce is encouraged and training in Equal Opportunities is provided to staff. The effectiveness of the Equal Opportunities policy is monitored.

All staff receive an annual review to assess performance and to identify career development opportunities and training requirements. Employment policies are communicated to all staff and are incorporated in an Employee Reference Manual.

Staff consultation is a key element of the Royal Household's employment policy with a number of channels of communication including bi-monthly team briefings held after the Lord Chamberlain's Committee meetings, a staff survey conducted every three years, regular small group discussions with the Lord Chamberlain and a six monthly open meeting led by the Lord Chamberlain to which all staff are invited. Staff are kept informed of the performance of the Royal Household and are encouraged to contribute ideas and suggestions and to give feedback to senior management as part of the 'continuing improvement' approach. All staff paid from the Civil List will receive a summary of this report, whilst the full report is available on the Royal Household website.

### **Health and Safety**

The Royal Household has a comprehensive Health and Safety Policy communicated to all employees. Regular training is provided on aspects of Health and Safety with risk assessment undertaken by the Fire, Health and Safety Office. The Health and Safety Committee, which includes staff representatives, also guides and advises on policy and implementation.

# INCOME AND EXPENDITURE ACCOUNT

<i>Year to 31st December</i>	Note	2004 £m	2003 £m
<b>Civil List funding received:</b>			
Annual Civil List		7.9	7.9
Draw-down from reserve		2.8	2.6
		<u>10.7</u>	<u>10.5</u>
		<u><u>10.7</u></u>	<u><u>10.5</u></u>
<b>Salaries</b>	3	7.6	7.1
<b>Other expenditure</b>			
Catering and hospitality		0.9	0.9
Executive and administrative		1.0	0.9
Housekeeping and furnishings		0.5	0.5
Ceremonial functions		0.2	0.2
Other		0.4	0.3
<b>Total net expenditure</b>	5	<u>10.6</u>	<u>9.9</u>
		<u><u>10.6</u></u>	<u><u>9.9</u></u>
<b>Net funding for fixed assets and stock</b>		0.1	0.6
		<u><u>0.1</u></u>	<u><u>0.6</u></u>

Total net expenditure in 2004 includes approximately £0.5 million in respect of VAT (£0.5 million in 2003).

The accounting policies are summarised on pages 24 and 25. The Income and Expenditure Account should be read in conjunction with the Balance Sheet and Cash Flow Statement on pages 21 and 22 respectively.

The results shown above relate to continuing activities. There are no recognised gains or losses for the year other than included above.

# BALANCE SHEET

<i>As at 31st December</i>	Note	2004 £m	2003 £m
<b>Fixed assets</b>	6	1.8	1.8
<b>Current assets</b>			
Stock	7	0.5	0.4
Debtors	8	0.8	1.1
Cash at bank and in hand		0.7	0.5
		2.0	2.0
<b>Creditors : amounts falling due within one year</b>	9	(1.5)	(1.6)
<b>Net current assets</b>		0.5	0.4
<b>Net assets</b>		2.3	2.2
		<u>2.3</u>	<u>2.2</u>
<b>Represented by:</b>			
Fixed asset reserve		1.8	1.8
Stock reserve		0.5	0.4
	10	2.3	2.2
		<u>2.3</u>	<u>2.2</u>

**Alan Reid**

Keeper of the Privy Purse

8 April 2005

## CASH FLOW STATEMENT

<i>Year to 31st December</i>	2004	2004	2003	2003
	£m	£m	£m	£m
<b>Reconciliation of total net expenditure to Civil List funding</b>				
Total net expenditure		(10.6)		(9.9)
Depreciation	0.4		0.3	
Increase in stock	(0.1)		–	
Decrease / (increase) in debtors	0.4		(0.4)	
(Decrease) / increase in creditors due within one year	(0.2)		0.4	
		<u>0.5</u>		<u>0.3</u>
<b>Net cash outflow from activities</b>		<u>(10.1)</u>		<u>(9.6)</u>
Capital expenditure – fixed assets acquired		(0.4)		(0.9)
<b>Net cash outflow before funding</b>		<u>(10.5)</u>		<u>(10.5)</u>
Civil List funding received		10.7		10.5
<b>Net increase in cash</b>		<u>0.2</u>		<u>–</u>

## CIVIL LIST RESERVE

The Civil List Act 1972 provides that, when the annuity payable under the Act exceeds Civil List expenditure for the year, the excess should be paid to the Royal Trustees to be accumulated by them and applied to meet deficiencies in future years. The Royal Household Investment Committee was established by a Treasury Minute of 30th December 1990 to invest such surpluses on behalf of the Royal Trustees.

Since the transfer of additional expenditure to the Civil List with effect from 1st April 2001, Civil List expenditure exceeds the annual £7.9 million payment and amounts are therefore now withdrawn from the reserve each year rather than being paid into it.

The annual amount to be withdrawn is determined when the Civil List budget is prepared towards the end of the preceding year.

	<b>2004</b>	2003
	<b>£m</b>	£m
Net expenditure for the year	<b>(10.6)</b>	(9.9)
Net increase in fixed assets	–	(0.6)
Net increase in stock	<b>(0.1)</b>	–
Total cash received	<b>(10.7)</b>	(10.5)
	<b>2004</b>	2003
	<b>£m</b>	£m
<b>Civil List reserve</b>		
Balance brought forward	<b>35.3</b>	36.5
Interest received	<b>1.5</b>	1.4
Draw-down	<b>(2.8)</b>	(2.6)
Balance carried forward	<b>34.0</b>	35.3

The reserve is invested in money market deposits.

The draw-down for 2005 is expected to be £4.3 million including capital expenditure.

# NOTES TO THE ACCOUNTS

## 1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

### a) Basis of preparation

The accounts are prepared in accordance with the direction given by the Treasury under Section 9 of the Civil List Audit Act 1816. The accounts have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules. The accounts have been prepared on an accruals basis.

### b) Recharges

All recharges are accounted for on a receivable basis.

### c) Pension costs

The assets of pension schemes to which the Civil List contributes are held separately from the Civil List. Contributions to the schemes are charged to the income and expenditure account to reflect the cost of benefits accruing to members.

### d) Leases

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

### e) Fixed assets and depreciation

Expenditure of £500 or more to acquire or improve assets which should last for at least a year is capitalised as fixed assets. Depreciation is charged on a straight-line basis at the following rates:

- Information systems hardware: 3 years
- Information systems software: 3 to 5 years
- Furnishings: 10 to 20 years
- Other equipment: 3 to 10 years
- Horses: 12 years
- Liveries: 7 to 20 years

Assets held in right of the Crown are not capitalised within these accounts although expenses relating to their use and maintenance are included.

### f) Stock

Stock is valued at the lower of cost and market value.

### g) Reserves

The reserves represent funds drawn down from the Royal Household Investment Committee to fund the acquisition of fixed assets and stock and which have not been included in the income and expenditure account.

## 2. SEGMENTAL ANALYSIS

	Salaries		Other costs		Total	
	2004	2003	2004	2003	2004	2003
	£m	£m	£m	£m	£m	£m
Catering and hospitality	1.3	1.2	0.9	0.9	2.2	2.1
Executive and administrative	2.8	2.6	1.0	0.9	3.8	3.5
Housekeeping and furnishings	2.1	1.9	0.5	0.5	2.6	2.4
Ceremonial functions	1.4	1.4	0.2	0.2	1.6	1.6
Other	–	–	0.4	0.3	0.4	0.3
Total	7.6	7.1	3.0	2.8	10.6	9.9

## 3. STAFF NUMBERS AND COSTS

### Establishment

The number of staff paid from the Civil List as at 31 December was as set out below.

	Number of staff	
	2004	2003
Lord Chamberlain	1	1
Private Secretary's Office	40	36
Privy Purse and Treasurer's Office	27	27
Master of the Household's Department	176	176
Lord Chamberlain's Office	63	63
Establishment for whom costs met from Civil List	307	303

This figure is shown net of staff time recharged to other funding sources. Where staff work part-time they are recorded according to the proportion of their time devoted to, and paid by, the Civil List.

The staff numbers for 2004 include establishment increases compared with 2003 of four staff in the Private Secretary's Office, relating to security liaison and records management.

## Payroll Costs

	2004	2003
	£m	£m
Salaries	5.9	5.6
Temporary staff	0.3	0.2
National Insurance	0.5	0.4
Pension contributions	0.9	0.9
	<u>7.6</u>	<u>7.1</u>

The above payroll costs are stated net of housing abatements and charges (in respect of the provision of residential accommodation) and services charges and recharges to related organisations and third parties (in respect of management, facilities and support provided by Civil List staff).

Salaries for members of the Lord Chamberlain's Committee paid from the Civil List, together with accrued pensions, are shown below. The salaries are set with reference to Senior Civil Service pay scales. The non-executives receive no remuneration in respect of their duties as members of the Committee.

## Executive Pay

	Age	Salary		Pension at 60 accrued to date			
				Annual pension		Lump sum	
		2004	2003	2004	2003	2004	2003
<i>Year to / as at 31st December</i>		2004	2003	2004	2003	2004	2003
		£	£	£	£	£	£
The Lord Luce	68	62,060	60,511	3,319	2,591	9,956	7,773
The Rt.Hon. Sir Robin Janvrin	58	155,614	150,131	33,347	31,020	100,041	93,061
Alan Reid	57	172,298	165,150	–	–	–	–
Vice Admiral Sir Tom Blackburn	59	83,012	78,729	4,806	3,715	14,419	11,146
Lt. Col. Sir Malcolm Ross	61	75,132	73,115	16,259	16,288	48,777	48,864

A proportion of Alan Reid's salary is recharged to the Property Services and Royal Travel Grants-in-aid and to the Royal Collection Trust, as part of the service charges. Sir Hugh Roberts is not included in the above table because he is not paid by the Civil List.

Lord Luce's pension entitlement assumes retirement at 70. Alan Reid has a payment equal to 17.5% of his salary paid into a personal pension scheme. Accrued pension amounts for 2003 are inflated by the retail price index to 2004 values.

#### **4. PENSION ARRANGEMENTS**

Until 31st March 2002, all full-time permanent employees were entitled to be members of (a) a scheme managed by the Government analogous to the Civil Service pension scheme (the Royal Household Pension Scheme), or (b) a scheme managed by trustees on behalf of the Royal Household (the Royal Households Group Pension Scheme). Both pension schemes provide similar pension benefits based on final pay and are non-contributory for employees (except in respect of widows'/widowers' benefits for the Government managed scheme). Full-time permanent employees joining from 1st April 2002 are entitled to be members of the Royal Household Defined Contribution (Stakeholder) Pension Scheme. Information about the schemes is set out below.

##### **Royal Household Pension Scheme**

The scheme is managed by the Government and has terms analogous to the Principal Civil Service Pension Scheme. Eligible employees are those paid from the Civil List who joined the Royal Household prior to 1st April 2001. Pension contributions are paid directly to the Consolidated Fund; in turn, pension benefits are paid directly from the Consolidated Fund on a defined benefit basis. The contribution rate during the year was 15.5% of pensionable pay (15.5% in 2003), reflecting a valuation by the Government Actuary's Department.

It has been agreed that contributions will remain at 15.5% until 31st March 2005, when they will increase to 19.7%. The contribution rates reflect the cost of pension benefits as they are earned by employees.

The pension scheme, managed by the Government, is not a funded scheme. As permitted by FRS 17 'Retirement Benefits', this scheme will be treated as a defined contribution scheme, when the accounting standard is fully adopted by the Civil List.

##### **Royal Households Group Pension Scheme**

All full-time permanent employees, who joined before 31st March 2002 and are not members of the Royal Household Pension Scheme, are entitled to be members of the Royal Households Group Pension Scheme which is managed by trustees on behalf of the Royal Household. The scheme provides benefits which are based on final pay and is non-contributory for employees.

The contribution rate for the scheme is based on triennial valuations undertaken by a qualified independent actuary using the projected unit method. As the scheme is closed to new entrants, under the projected unit method, the current service cost will increase as the members approach retirement. The most recent completed valuation was as at 1st January 2003. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It was assumed that the real investment return would be 3.95% per annum, that real salary increases would average 1.5% per annum and that pensions would increase at the rates specified in the scheme rules.

The most recent actuarial valuation showed that the total market value of the assets of the scheme was £11.8 million and that this value of the assets was sufficient to cover 73% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Following this valuation, the employer's contribution rate in respect of staff employed by the Civil List was set at 17.0% with effect from 1st January 2003 until 31st December 2003 and 17.6% from 1st January 2004, plus an index linked annual payment of £23,000.

The valuation used for this disclosure has been based on the most recent actuarial review of the Royal Households Group Pension Scheme as at 1st January 2003 updated by an independent qualified actuary, Hewitt, to take account of the requirements of FRS 17 in order to assess the liabilities in respect of the Civil List section of the scheme at 31st December 2004. Scheme assets in respect of the Civil List section of the scheme are stated at their market values at 31 December 2004.

Actuarial assumptions adopted as at 31st December	2004	2003
Discount rate	5.2% pa	5.4% pa
Rate of general long-term increase in salaries	4.4% pa	4.3% pa
Rate of price inflation	2.9% pa	2.8% pa
Rate of increase to pensions in payment (pre 1993 service)	5.0% pa	5.0% pa
Rate of increase to pensions in payment (post 1993 service)	2.7% pa	2.7% pa

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, have been determined by the actuary as follows.

Main asset categories	Long term rate of return expected as at 31st December		Value as at 31st December	
	2004	2003	2004	2003
			£m	£m
Equities	7.6% pa	7.8% pa	0.9	0.6
Government Bonds	4.6% pa	4.8% pa	0.2	0.1
Other	4.8% pa	4.0% pa	–	–
Total assets			1.1	0.7
Liabilities			(2.0)	(1.4)
			<u>(0.9)</u>	<u>(0.7)</u>

There is therefore a net pension liability of £0.9 million as at 31st December 2004 (£0.7 million as at 31st December 2003). When FRS 17 is fully implemented, it will be included as a liability in the balance sheet.

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

	£m
Deficit as at 1st January 2004	(0.7)
Movement in year:	
Current service cost	(0.3)
Contributions	0.2
Actuarial loss	(0.1)
Deficit as at 31st December 2004	<u>(0.9)</u>

The actuarial loss in the year comprises:

	£m
Actual return less expected return on assets	–
Experience gains and losses arising on the liabilities	–
Change in assumptions underlying the present value of the liabilities	(0.1)
Actuarial loss	<u>(0.1)</u>
	%
Difference between the expected and actual return on assets, expressed as a percentage of assets	(2.6)
Experience losses on pension liabilities expressed as a percentage of the present value of the liabilities	(2.3)
Total actuarial loss expressed as a percentage of the present value of liabilities	(6.8)

### **Royal Household Defined Contribution (Stakeholder) Pension Scheme**

Full-time permanent employees joining from 1st April 2002 are entitled to be members of the Royal Household Defined Contribution (Stakeholder) Pension Scheme (“the Stakeholder Scheme”), which is a stakeholder arrangement administered by Legal & General. The Stakeholder Scheme is non-contributory for employees and the Royal Household pays contributions into the fund for each employee. The current rate of contribution is 15% of pensionable salary. Benefits are based on contribution levels linked to investment returns over the period to retirement. Employees can, if they wish, make their own contributions up to the Inland Revenue limits.

## 5. TOTAL NET EXPENDITURE

Total net expenditure is stated after crediting:

	2004	2003
	£m	£m
Service charges and recharges	2.4	2.3

## 6. FIXED ASSETS

	Information Systems £m	Furnishings & Equipment £m	Horses & Liveries £m	Total £m
<b>Cost</b>				
At 1st January 2004	1.8	1.2	0.3	3.3
Additions	0.3	0.1	–	0.4
Disposals	(0.1)	–	–	(0.1)
At 31st December 2004	<u>2.0</u>	<u>1.3</u>	<u>0.3</u>	<u>3.6</u>
<b>Depreciation</b>				
At 1st January 2004	1.0	0.4	0.1	1.5
Charge for the year	0.3	0.1	–	0.4
Disposals	(0.1)	–	–	(0.1)
At 31st December 2004	<u>1.2</u>	<u>0.5</u>	<u>0.1</u>	<u>1.8</u>
<b>Net book value</b>				
At 31st December 2004	<u>0.8</u>	<u>0.8</u>	<u>0.2</u>	<u>1.8</u>
At 1st January 2004	<u>0.8</u>	<u>0.8</u>	<u>0.2</u>	<u>1.8</u>

## 7. STOCK

	2004	2003
	£m	£m
Official presents	0.1	0.1
Wine and spirits	0.4	0.3
	<u>0.5</u>	<u>0.4</u>

Wine is held in stock to age.

## 8. DEBTORS

	2004	2003
	£m	£m
Recharges	0.5	0.8
Other debtors	0.2	0.2
Prepayments	0.1	0.1
	<u>0.8</u>	<u>1.1</u>

Recharges have decreased over 2004 since 2003 was exceptionally high as invoices for the recovery of information systems support costs were issued at the year-end.

## 9. CREDITORS: amounts falling due within one year

	2004	2003
	£m	£m
Amounts due to suppliers	0.3	0.5
The Privy Purse	–	0.1
PAYE and National Insurance	0.6	0.5
Pension contributions	0.3	0.1
Accruals	0.3	0.4
	<u>1.5</u>	<u>1.6</u>

Cash balances not required to fund debtors and creditors at 31st December are payable to the Royal Household Investment Committee, for inclusion in the Civil List reserve.

## 10. RESERVES

	2004	2003
	£m	£m
Balances brought forward	2.2	1.6
Net funding for fixed assets and stock	0.1	0.6
Balances carried forward	<u>2.3</u>	<u>2.2</u>

## 11. COMMITMENTS

Operating lease commitments are as follows:

	2004	2003
	£m	£m
Expiring within 1 year	<u>0.1</u>	<u>0.1</u>

## 12. RELATED PARTY TRANSACTIONS

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

	2004 £m	2003 £m	2004 £m	2003 £m
	<b>Balance due from:</b>		<b>Recoveries from:</b>	
Royal Collection Trust	0.1	0.2	0.7	0.6
Property Services Grant-in-aid	0.2	0.2	0.6	0.5
Royal Travel Grant-in-aid	–	–	0.1	0.1
Privy Purse	0.1	0.1	0.2	0.2
Other Royal Households	0.2	0.3	0.3	0.2
	<b>Balance due to:</b>		<b>Charged by:</b>	
Privy Purse	–	0.1	0.1	0.1

The Royal Collection Trust, the Property Services and Royal Travel Grants-in-aid, the Privy Purse and other Royal Households are regarded as related parties. Material transactions with these related parties during the year are summarised above.

Recoveries are mainly management fees charged by the Civil List for various services including accountancy, payroll, personnel, catering, cleaning and the provision of press office, internal audit and information systems services.

Charges to the Civil List are in respect of the purchase of horses and summer grazing and the costs of cleaning and accommodation for official staff at Balmoral and Sandringham.

None of the key staff employed by the Civil List has undertaken any material transaction with the Civil List during the year.

# STATEMENT ON INTERNAL CONTROLS

A system of internal control is in place to safeguard the assets and funds of the Civil List and to give reasonable assurance that operating policies are implemented and aims and objectives met.

The system of internal control is based on an ongoing process designed to (a) identify and evaluate the nature and extent of the risks to the achievement of the aims and objectives of Civil List funded operations, set out in its five year plan, and (b) manage these risks efficiently, effectively and economically. For reasons of cost and practicality, the system of internal control is intended to manage rather than eliminate risks and to give reasonable rather than absolute assurance.

The Keeper of the Privy Purse, who is responsible for ensuring that a sound system of internal control is maintained and for reviewing its effectiveness, has regard to the following:

- A detailed budget for the following year, which sets out the aims and objectives for Civil List funded operations, plus a rolling five year plan; the budget is approved annually by the Lord Chamberlain's Committee. Monthly expenditure is reported against budget. Significant variances to budget are examined and appropriate action is taken where required.
- A risk and control assessment and a risk register have been compiled. They have been reviewed with the management of each operating area, enabling a full risk and control assessment for the year ended 31st December 2004.
- The continuing risk assessment process undertaken by management. This forms the basis of the annual internal audit plan, which is approved by the Audit Committee. Progress in implementing internal audit recommendations is monitored by management and copies of internal audit reports are made available to HM Treasury. The Head of Audit Services reports to the Committee annually on the adequacy of the internal control system and on whether any losses arising through misconduct, fraud or any other irregularity have been identified.
- Work undertaken by HM Treasury as external auditors and other work and assessments undertaken by management.

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

**Alan Reid**

Keeper of the Privy Purse

8 April 2005

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

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

- the administration of the Civil List fully accords with the accounts directions given by the Treasury in pursuance of Section 9 of the Civil List Audit Act 1816;
- the Civil List is applied only for the purposes set out in the Financial Memorandum between the Royal Household and the Treasury and in the Civil List Act 1972;
- the Household maintains books and records which are proper and necessary to enable it to discharge its responsibility for income and expenditure;
- the Civil List is used economically, efficiently and effectively to secure best value for money, in accordance with propriety and regularity;
- proper, effective and timely follow up action is taken to all internal and external audit reports.

The Keeper of the Privy Purse is also responsible for safeguarding the assets acquired from Civil List funds and for taking reasonable steps to prevent and detect fraud and other irregularities.

The Annual Report is also published on the Royal Household website; the maintenance and integrity of the website is the responsibility of the Lord Chamberlain's Committee.

**Alan Reid**

Keeper of the Privy Purse

8 April 2005

# REPORT OF THE AUDITOR TO THE CHANCELLOR OF THE EXCHEQUER

I have audited the accounts on pages 20 to 32 under the Civil List Audit Act 1816. These accounts have been prepared under the historical cost convention and the accounting policies set out on pages 24 and 25.

## **Respective responsibilities of the Royal Household and the Auditor**

The Royal Household is responsible for the preparation of the accounts for each financial year in the form and on the basis approved by the Treasury. The Royal Household is also responsible for ensuring the regularity of financial transactions. The Royal Household is also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Civil List Audit Act 1816 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the accounts, if proper accounting records have not been kept or if I have not received all the information or explanations I require for my audit.

I read the other information contained in the Annual Report, and consider whether it is consistent with the audited accounts. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounts.

I review the statement on internal controls on page 33 and report if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounts.

## **Basis of opinion**

I conducted my audit in accordance with UK Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the accounts. It also includes an assessment of the judgements made by the Royal Household in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by error or fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounts.

## **Opinion**

In my opinion:

- I. the accounts give a true and fair view of the state of affairs at 31st December 2004 and of the net expenditure, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Civil List Audit Act 1816 and directions made thereunder by the Treasury; and
- II. in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

**Gus O'Donnell**

Civil List Auditor

Government Offices  
1 Horse Guards Road  
London  
SW1A 2HQ

8 April 2005

## APPENDIX A: ADDITIONAL NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

Staff costs for each of the following expenditure categories are included under salaries and the breakdown is shown in note 2:

### Catering and hospitality

	2004	2003
	£m	£m
Garden parties	0.5	0.5
Food and kitchens	0.4	0.4
	<u>0.9</u>	<u>0.9</u>

### Executive and administrative

	2004	2003
	£m	£m
Recruitment and training	0.2	0.2
Depreciation (net of recharge)	0.3	0.2
Stationery	0.2	0.2
Computers and information systems	0.1	0.1
Legal advice and other professional services	0.1	0.1
Travel	0.1	0.1
	<u>1.0</u>	<u>0.9</u>

### Housekeeping and furnishings

	2004	2003
	£m	£m
Housekeeping	0.3	0.3
Furnishings and equipment	0.2	0.2
	<u>0.5</u>	<u>0.5</u>

### Ceremonial functions

	2004	2003
	£m	£m
Carriage processions	–	0.1
Uniforms and protective clothing	0.1	0.1
Motor vehicles	0.1	–
	<u>0.2</u>	<u>0.2</u>

## APPENDIX B: FIVE YEAR INFORMATION

### INCOME AND EXPENDITURE ACCOUNT

<i>Year to 31st December</i>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Civil List funding received:</b>					
Annual Civil List	7.9	7.9	7.9	7.9	7.9
Draw-down from / (transfer to) reserve	2.8	2.6	2.2	0.5	(1.3)
	<u>10.7</u>	<u>10.5</u>	<u>10.1</u>	<u>8.4</u>	<u>6.6</u>
	<b>7.6</b>	<b>7.1</b>	<b>6.8</b>	<b>6.1</b>	<b>4.6</b>
<b>Other expenditure</b>					
Catering and hospitality	0.9	0.9	0.9	0.8	0.8
Executive and administrative	1.0	0.9	0.7	0.5	0.5
Housekeeping and furnishings	0.5	0.5	0.4	0.3	0.3
Ceremonial functions	0.2	0.2	0.2	0.2	0.2
Golden Jubilee	–	–	0.5	–	–
Other	0.4	0.3	0.3	0.2	0.1
<b>Total net expenditure</b>	<u>10.6</u>	<u>9.9</u>	<u>9.8</u>	<u>8.1</u>	<u>6.5</u>
<b>Net funding for fixed assets and stock</b>	<u>0.1</u>	<u>0.6</u>	<u>0.3</u>	<u>0.3</u>	<u>0.1</u>

### PERFORMANCE INDICATORS AND OPERATING RATIOS

	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Increase in net Civil List expenditure</b>	7.1%	2.0%	19.7%	25.3%	5.0%
<b>Supplier Payments</b>					
Percentage paid within:					
• 30 days	91%	91%	92%	75%	79%
• 40 days	95%	95%	95%	88%	89%
• 50 days	97%	96%	96%	92%	93%
<b>Staff Numbers</b>					
Establishment (after recharges)	307	303	290	284	237

## APPENDIX C: ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN RESPECT OF THE CIVIL LIST

1. The Royal Household shall prepare accounts for The Queen's Civil List (the Civil List) for the year ended 31st December 2003 and for subsequent financial years comprising :
  - (a) a narrative description of activities and results for the year;
  - (b) an income and expenditure account;
  - (c) a balance sheet;
  - (d) a cash flow statement; and
  - (e) a statement of total recognised gains and losses,including such notes as may be necessary for the purposes referred to in the following paragraphs.
2. The accounts shall give a true and fair view of the income and expenditure, total recognised gains and cash flows for the year, and the state of affairs as at the end of the year, prepared in accordance with generally accepted accounting practice in the United Kingdom (UK GAAP).
3. The application of the accounting and disclosure requirements of the Companies Act, accounting standards and other disclosure requirements is given in Schedule 1 attached.
4. This direction shall be reproduced as an appendix to the accounts.

**Ian Taylor**

The Treasury Accountant

30th March 2004

# SCHEDULE 1: ACCOUNTING AND DISCLOSURE REQUIREMENTS

## **Companies Act**

1. The disclosure exemptions permitted by the Companies Act shall not apply to the Civil List accounts unless specifically approved by the Treasury.
2. The Companies Act requires certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, information relating to the Civil List accounts shall be contained in the foreword, which shall be signed and dated by the Keeper of the Privy Purse.
3. When preparing its income and expenditure account, the Civil List accounts shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
4. When preparing its balance sheet, the Civil List accounts shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act. The balance sheet totals shall be struck at "Total assets less current liabilities" and signed and dated by the Keeper of the Privy Purse.
5. The Civil List accounts are not required to provide the historic cost information prescribed in paragraph 33(3) of Schedule 4 to the Companies Act.

## **Accounting Standards**

6. Historical cost profits and losses (as described in FRS3) do not have to be shown.

## **Other disclosure requirements**

7. The accounts shall, inter alia:
  - (a) state that the accounts have been prepared in accordance with this Treasury direction;
  - (b) include a statement on the system of internal controls;
  - (c) include an appendix giving details of Household expenses (excluding salaries) consistent with the categories in 3.3.2 of the Report of the Royal Trustees dated 4th July 2000.