

The Civil List

Annual Report 2005

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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 fifth published annual accounts for the Civil List, which are for the year to 31st December 2005, 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 2005 amounted to £11.2 million (2004 £10.6 million). The increase in net expenditure is analysed as follows:

	£m
Net expenditure in 2004	10.6
Inflation and pay increases	0.6
Net expenditure in 2005	<u>11.2</u>

The Civil List meets the central staff costs and running expenses of The Queen's official Household. Of the £11.2 million, £8.2 million (72%) is the salary cost of the 310 full-time equivalent staff borne by 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 Realm visit to Canada in May and a State Visit to Malta in November during which Her Majesty opened the biennial Commonwealth Heads of Government meeting.

The Queen also undertook 382 engagements including visits to cities and towns in England, Scotland, Wales and Northern Ireland, entertained around 31,000 people at five Garden Parties, held 26 investitures for around 2,500 people (approximately 10,000 including their guests), sent around 25,000 anniversary messages and handled over 54,000 items of correspondence. There were also inward State Visits by the President of the Italian Republic in March and the President of the People's Republic of China in November, and an Official Visit by the King of Norway in October.

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 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 Queen's programme for 2005 had to be carefully paced within the limits of a busy year both for regular programme items and major set-piece events, as well as for the marriage of The Prince of Wales and unexpected events such as responding to the Tsunami and the London Bombings in July. Highlights of The Queen's programme have included:

- A ten-day visit to Canada and a visit to Malta during which The Queen opened the biennial Commonwealth Heads of Government meeting.
- Major set-piece events to mark the 60th anniversary of the end of the Second World War and the 200th anniversary of the Battle of Trafalgar.
- Events in support of London's successful bid to host the 2012 Olympics.
- Visits to Bristol, Yorkshire, the Channel Islands, Cambridge, St Andrews, Bexley and Tyne and Wear.
- Visits to Scotland including the G8 dinner, Wales for the Royal Variety Performance and a day in Northern Ireland; and
- Themed days covering Music, Maritime organisations and Volunteering.

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 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 Finance, 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 merging of the finance function with that for the Grants-in-Aid has been achieved, with both areas, now called Treasury Finance, being managed by the Financial Controller and with common processes and procedures being used by the new team;
- Key Personnel achievements in the year included various initiatives including the introduction of a training newsletter and a successful programme of NVQs for Royal Collection Enterprises, an Investors in People audit and a new Performance and Development Review format for the Master's Department;
- ISM systems were steadily developed during the year with the launch of the Household's first Intranet, giving access to core information resources. As part of this project, workstations were installed for non-office staff to access both intranet and internet, with a 28% increase in user numbers; and
- Audit Services further developed their advisory role by carrying out value for money reviews and assisting Departmental managers with progressing internal control issues. Assistance has also been provided on refining the high level risk assessment process for the Royal Household.

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 President of the Italian Republic in March and the President of the People's Republic of China in November, plus an Official Visit by the King of Norway in October.

Five Garden Parties were held at Buckingham Palace and the Palace of Holyroodhouse and were attended by approximately 31,000 people. In addition to the four 'normal' Garden Parties there was an additional one for the Not Forgotten Association.

26 Investitures were held at Buckingham Palace, the Palace of Holyroodhouse, Windsor Castle and Cardiff, during which around 2,500 people received honours.

There are on average 33 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 2006 include the following:

Information systems

Over a five year period, investment of up to £6.5 million is planned for the Royal Household as a whole in order to develop the IT infrastructure and the information systems that operate on it. Of this around £3.2 million would be borne by the Civil List.

Work will continue on increasing access to information resources on the network, including developing a more sophisticated Intranet with better links between systems improving information flow within the organisation, alongside initiatives to identify where changes to working practices or systems will deliver better value. In addition, work will continue to address the Household's Business Continuity needs with the development of more resilient services and the introduction of a Disaster Recovery Facility.

Finance

As a continuation of the development of the Treasury Finance function, an increased Project Management resource will help drive the roll out of purchase order processing to budget holders over the year enhancing the quality of the financial information available to them and as part of this process, the receipt of invoices for the Civil List will be centralised, invoice scanning will be introduced along with payment of suppliers by BACS. In addition, a major project will be undertaken to choose and implement a fully integrated payroll and personnel system which will link directly to the general ledger. This will facilitate a more efficient and less paper driven process.

Personnel

Personnel have a number of projects including the launch of the second stage of the Royal Household's Intranet and the networking of the personnel database to allow managers to access information on their staff directly. In addition, there are projects to support the implementation of age discrimination legislation and changes arising from the Pension Act 2005. There are "Health and Lifestyle" initiatives which include the formation of a Staff Committee, Open Days and a Newsletter to be produced working closely with the Sports and Social club.

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 4 February 2005)
- Air Vice-Marshal David Walker (from 5 February 2005)
- Comptroller, Lord Chamberlain's Office - Lt. Col. Sir Malcolm Ross (to 6 January 2006)
- Lt. Col. Andrew Ford (from 7 January 2006)
- 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 has made 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>	<i>Note</i>	2005 £m	2004 £m
Civil List funding received:			
Annual Civil List		7.9	7.9
Draw-down from reserve		3.4	2.8
		11.3	10.7
Salaries	3	8.2	7.6
Other expenditure			
Catering and hospitality		1.0	0.9
Executive and administrative		0.9	1.0
Housekeeping and furnishings		0.5	0.5
Ceremonial functions		0.3	0.2
Other		0.3	0.4
Total net expenditure	5	11.2	10.6
Net funding for fixed assets and stock		0.1	0.1
		=====	=====

Total net expenditure in 2005 includes approximately £0.5 million in respect of VAT (£0.5 million in 2004).

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>		2005	2004
	Note	£m	£m
Fixed assets	6	1.9	1.8
Current assets			
Stock	7	0.5	0.5
Debtors	8	0.8	0.8
Cash at bank and in hand		0.5	0.7
		1.8	2.0
Creditors : amounts falling due within one year	9	(1.3)	(1.5)
Net current assets		0.5	0.5
Net assets		2.4	2.3
		=====	=====

Represented by:

Fixed asset reserve		1.9	1.8
Stock reserve		0.5	0.5
	10	2.4	2.3
		=====	=====

Alan Reid

Keeper of the Privy Purse

21 April 2006

CASH FLOW STATEMENT

<i>Year to 31st December</i>	2005 £m	2005 £m	2004 £m	2004 £m
Reconciliation of total net expenditure to Civil List funding				
Total net expenditure		(11.2)		(10.6)
Depreciation	0.5		0.4	
Increase in stock	–		(0.1)	
Decrease in debtors	–		0.4	
Decrease in creditors due within one year	(0.2)		(0.2)	
		0.3		0.5
Net cash outflow from activities		(10.9)		(10.1)
Capital expenditure – fixed assets acquired	(0.6)		(0.4)	
Net cash outflow before funding		(11.5)		(10.5)
Civil List funding received	11.3		10.7	
Net (decrease)/ increase in cash		(0.2)		0.2

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.

	2005 £m	2004 £m
Net expenditure for the year	(11.2)	(10.6)
Net increase in fixed assets	(0.1)	-
Net increase in stock	-	(0.1)
Total cash received	<u>(11.3)</u>	<u>(10.7)</u>

	2005 £m	2004 £m
Civil List reserve		
Balance brought forward	34.0	35.3
Interest received	1.6	1.5
Draw-down	<u>(3.4)</u>	<u>(2.8)</u>
Balance carried forward	<u>32.2</u>	<u>34.0</u>

The reserve is invested in money market deposits.

The draw-down for 2006 is expected to be £4.8 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	
	2005	2004	2005	2004	2005	2004
	£m	£m	£m	£m	£m	£m
Catering and hospitality	1.4	1.3	1.0	0.9	2.4	2.2
Executive and administrative	3.1	2.8	0.9	1.0	4.0	3.8
Housekeeping and furnishings	2.2	2.1	0.5	0.5	2.7	2.6
Ceremonial functions	1.5	1.4	0.3	0.2	1.8	1.6
Other	—	—	0.3	0.4	0.3	0.4
Total	8.2	7.6	3.0	3.0	11.2	10.6

3. STAFF NUMBERS AND COSTS

Establishment

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

	Number of staff	
	2005	2004
Lord Chamberlain	1	1
Private Secretary's Office	43	40
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 borne by Civil List	310	307

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 2005 include establishment increases compared with 2004 of three staff in the Private Secretary's Office, relating to Freedom of Information.

Payroll Costs

	2005 £m	2004 £m
Salaries	6.4	5.9
Temporary staff	0.3	0.3
National Insurance	0.5	0.5
Pension contributions	1.0	0.9
	<hr/>	<hr/>
	8.2	7.6
	<hr/>	<hr/>

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

<i>Year to / as at 31st December</i>	<i>2005</i>	Age		Salary		Pension at 60 accrued to date		
						Annual pension	Lump sum	
		£'000	£'000	£'000	£'000	£'000	£'000	
The Lord Luce	69	64	62	4	3	13	10	
The Rt.Hon. Sir Robin Janvrin	59	167	156	39	34	118	103	
Alan Reid	58	182	172	—	—	—	—	
Vice Admiral Sir Tom Blackburn	60	14	83	—	5	—	15	
Air Vice-Marshal David Walker	49	115	—	—	—	—	—	
Lt. Col. Sir Malcolm Ross	62	77	75	18	17	53	50	

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.

Air Vice-Marshal David Walker is seconded from the Ministry of Defence. The salary shown above is his secondment cost (excluding VAT) charged to the Civil List for the period from 5 February 2005 to 31 December 2005.

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 2004 are inflated by the retail price index to 2005 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 until 31st March 2005 when it increased to 19.7% (15.5% in 2004), reflecting a valuation by the Government Actuary's Department. 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 has been 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 2005. Scheme assets in respect of the Civil List section of the scheme are stated at their market values at 31st December 2005.

Actuarial assumptions adopted as at 31st December	2005	2004
Discount rate	4.7% pa	5.2% pa
Rate of general long-term increase in salaries	4.4% pa	4.4% pa
Rate of price inflation	2.9% pa	2.9% 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	
	2005	2004	2005	2004
		£m	£m	
Equities	7.1% pa	7.6% pa	1.2	0.9
Government Bonds	4.1% pa	4.6% pa	0.3	0.2
Other	4.6% pa	4.8% pa	0.1	—
Total assets			1.6	1.1
Liabilities			(2.9)	(2.0)
			(1.3)	(0.9)

There is therefore a net pension liability of £1.3 million as at 31st December 2005 (£0.9 million as at 31st December 2004). FRS 17 should be fully implemented for the year ended 31st December 2005 and the liability included on the balance sheet. However, this has not been reflected in these accounts because the Royal Household plans to introduce FRS 17 simultaneously to the accounts of the Civil List and the Grants-in-aid. As disclosed in the accounts of the Grant-in-aid for Property Services and Royal Communications and Information and the Grant-in-aid for Royal Travel by Air and Rail, this will not be possible until after the next actuarial valuation has been completed later in 2006.

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

	£m
Deficit as at 1st January 2005	(0.9)
Movement in year:	
Current service cost	(0.3)
Contributions	0.2
Actuarial loss	(0.3)
Deficit as at 31st December 2005	<u><u>(1.3)</u></u>

The actuarial loss in the year comprises:

	£m
Actual return less expected return on assets	0.2
Experience gains and losses arising on the liabilities	(0.1)
Change in assumptions underlying the present value of the liabilities	(0.4)
Actuarial loss	<u><u>(0.3)</u></u>
	%
Difference between the expected and actual return on assets, expressed as a percentage of assets	12.1
Experience losses on pension liabilities expressed as a percentage of the present value of the liabilities	(1.5)
Total actuarial loss expressed as a percentage of the present value of liabilities	(9.6)

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:

	2005 £m	2004 £m
Service charges and recharges	2.8	2.4

6. FIXED ASSETS

	Information Systems	Furnishings & Equipment	Horses & Liveries	Total £m
	£m	£m	£m	
Cost				
At 1st January 2005	2.0	1.3	0.3	3.6
Additions	0.3	0.3	—	0.6
At 31st December 2005	2.3	1.6	0.3	4.2
Depreciation				
At 1st January 2005	1.2	0.5	0.1	1.8
Charge for the year	0.4	0.1	—	0.5
At 31st December 2005	1.6	0.6	0.1	2.3
Net book value				
At 31st December 2005	0.7	1.0	0.2	1.9
At 1st January 2005	0.8	0.8	0.2	1.8

7. STOCK

	2005 £m	2004 £m
Official presents	0.1	0.1
Wine and spirits	0.4	0.4
	0.5	0.5

Wine is held in stock to age.

8. DEBTORS

	2005 £m	2004 £m
Recharges	0.7	0.5
Other debtors	—	0.2
Prepayments	0.1	0.1
	0.8	0.8

Recharges have increased over 2005 due to earlier recharge of other debtors.

9. CREDITORS: amounts falling due within one year

	2005 £m	2004 £m
Amounts due to suppliers	0.3	0.3
PAYE and National Insurance	0.6	0.6
Pension contributions	0.3	0.3
Accruals	0.1	0.3
	1.3	1.5

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

	2005 £m	2004 £m
Balances brought forward	2.3	2.2
Net funding for fixed assets and stock	0.1	0.1
Balances carried forward	2.4	2.3

11. COMMITMENTS

Operating lease commitments are as follows:

	2005 £m	2004 £m
Expiring within 1 year	—	0.1
Expiring between 2 and 5 years	0.1	—
	0.1	0.1

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.

	2005 £m	2004 £m	2005 £m	2004 £m
Balance due from:		Recoveries from:		
Royal Collection Trust	—	0.1	0.8	0.7
Property Services Grant-in-aid	0.1	0.2	0.7	0.6
Royal Travel Grant-in-aid	—	—	0.1	0.1
Privy Purse	0.1	0.1	0.2	0.2
Other Royal Households	0.2	0.2	0.3	0.3
Balance due to:		Charged by:		
Privy Purse	—	—	—	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 2005.
- 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

21 April 2006

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

21 April 2006

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 responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the accounts. It also includes an assessment of the significant estimates and 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 fraud or other irregularity or error 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

This is a qualified opinion arising from a disagreement about the accounting treatment of pension contributions.

As explained in note 4 “Pension Arrangements”, Financial Reporting Standard 17 has not been implemented for year ended 31st December 2005. Accordingly net assets and reserves should be reduced by £1.3 million (2004: £0.9 million). Net expenditure should be increased by £0.1 million (2004: £0.1 million). In addition, there is an actuarial loss of £0.3 million (2004: £0.1 million) that should be recognised in a Statement of Total Recognised Gains and Losses.

In my opinion:

- I. Except for the financial effect of not making the adjustment referred to above, the accounts give a true and fair view of the state of affairs at 31st December 2005 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.

Nicholas Macpherson

Civil List Auditor

Government Offices
1 Horse Guards Road
London
SW1A 2HQ

21 April 2006

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. An analysis of other costs is set out below.

Catering and hospitality

	2005 £m	2004 £m
Garden parties	0.6	0.5
Food and kitchens	0.4	0.4
	<hr/> 1.0	<hr/> 0.9
	=====	=====

Executive and administrative

	2005 £m	2004 £m
Recruitment and training	0.2	0.2
Depreciation (net of recharge)	0.3	0.3
Stationery	0.1	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
	<hr/> 0.9	<hr/> 1.0
	=====	=====

Housekeeping and furnishings

	2005 £m	2004 £m
Housekeeping	0.3	0.3
Furnishings and equipment	0.2	0.2
	<hr/> 0.5	<hr/> 0.5
	=====	=====

Ceremonial functions

	2005 £m	2004 £m
Carriage processions	0.1	–
Uniforms and protective clothing	0.1	0.1
Motor vehicles	0.1	0.1
	<hr/> 0.3	<hr/> 0.2
	=====	=====

APPENDIX B: FIVE YEAR INFORMATION

INCOME AND EXPENDITURE ACCOUNT

<i>Year to 31st December</i>	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Civil List funding received:					
Annual Civil List	7.9	7.9	7.9	7.9	7.9
Draw-down from reserve	3.4	2.8	2.6	2.2	0.5
	11.3	10.7	10.5	10.1	8.4
	=====	=====	=====	=====	=====
Salaries	8.2	7.6	7.1	6.8	6.1
Other expenditure					
Catering and hospitality	1.0	0.9	0.9	0.9	0.8
Executive and administrative	0.9	1.0	0.9	0.7	0.5
Housekeeping and furnishings	0.5	0.5	0.5	0.4	0.3
Ceremonial functions	0.3	0.2	0.2	0.2	0.2
Golden Jubilee	—	—	—	0.5	—
Other	0.3	0.4	0.3	0.3	0.2
Total net expenditure	11.2	10.6	9.9	9.8	8.1
Net funding for fixed assets and stock	0.1	0.1	0.6	0.3	0.3
	=====	=====	=====	=====	=====

PERFORMANCE INDICATORS AND OPERATING RATIOS

	2005	2004	2003	2002	2001
Increase in net Civil List expenditure	5.7%	7.1%	2.0%	19.7%	25.3% ¹
Supplier Payments					
Percentage paid within:					
• 30 days	89%	91%	91%	92%	75%
• 40 days	93%	95%	95%	95%	88%
• 50 days	96%	97%	96%	96%	92%
Staff Numbers					
Establishment (after recharges)	310	307	303	290	284

¹ During 2001 and 2002 additional expenditure was transferred to the Civil List following recommendations set out in the Report of the Royal Trustees in July 2000.

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.