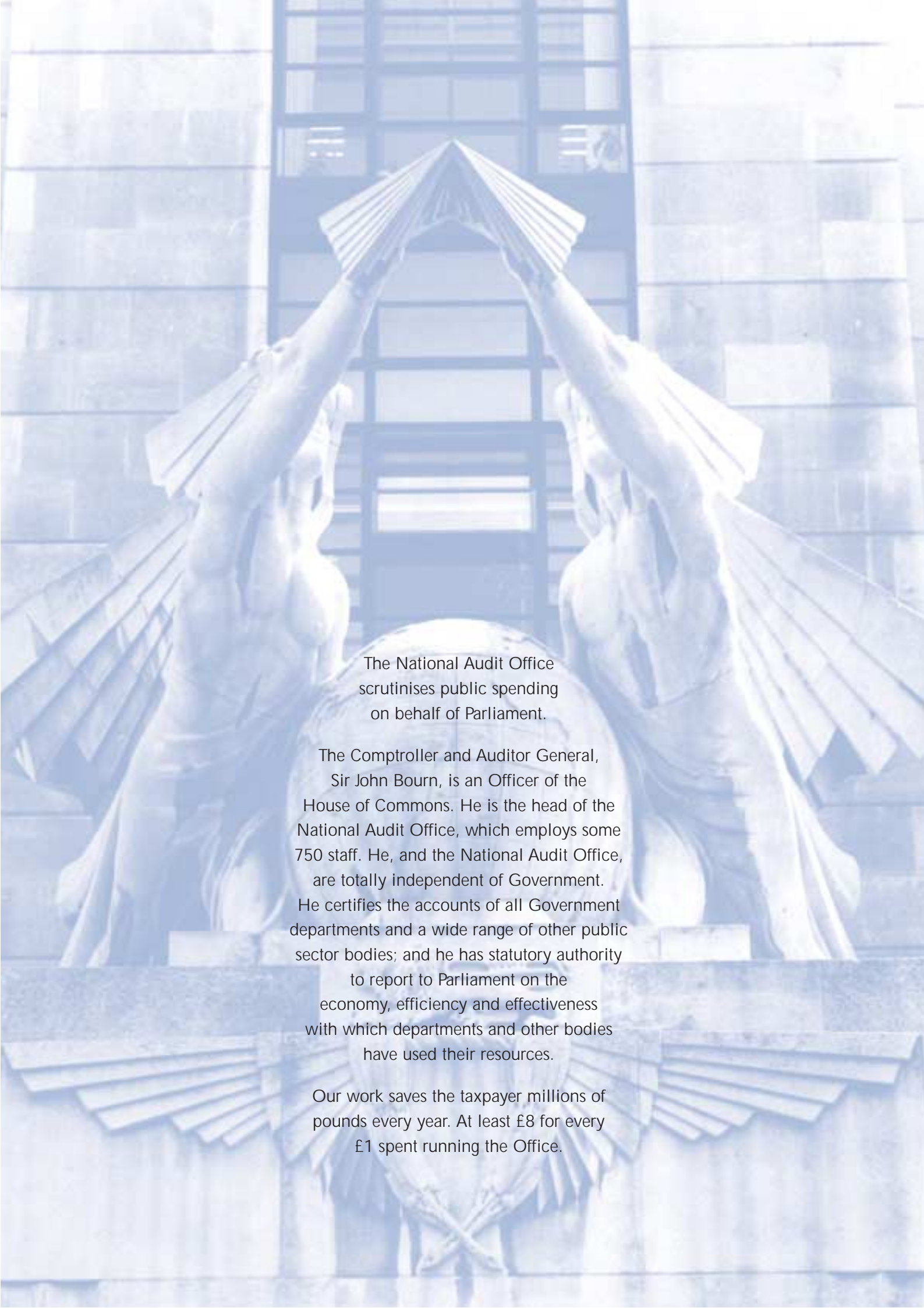


Royal travel by air and rail

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 25 Session 2001-2002: 22 June 2001





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Royal travel by air and rail



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 25 Session 2001-2002: 22 June 2001

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

John Bourn
Comptroller and Auditor General

National Audit Office
6 June 2001

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executive summary

Introduction and main findings

- 1 Each year, the Royal Family undertakes many engagements for or on behalf of the nation, the armed services and a wide range of other organisations across the public, private and voluntary sectors. Since April 1997¹ the cost of the Royal Family's and the Royal Household's (the Household) travel by air and rail for official functions has been met by a grant-in-aid from the Department of the Environment, Transport and the Regions (the Department). In the three years since that date, expenditure totalling some £39 million has been met by grant-in-aid and in 2000-01, expenditure is expected to be around £5.4 million. This report looks at how the Household and the Department administer and control the grant to ensure that value for money has been obtained on behalf of the taxpayer. Our report does not cover royal travel by car, which is met by the Civil List, Parliamentary Annuities² or from the Royal Family's own resources. Our examination covered the period from the beginning of the new grant-in-aid arrangements, in 1997-98, to the most recent financial year 2000-01. Our detailed analysis of expenditure and travel trends and data covers the period to 1999-2000 because outturn figures for 2000-01 are not yet audited and finalised.



- 2 Our main findings are:

Expenditure charged to the grant-in-aid has reduced by two thirds since the first year of the new arrangements

- In 1997-98 net expenditure charged to the grant-in-aid was £17.3 million but had reduced to an estimated £5.4 million in 2000-01 - a reduction of 69 per cent. In each year expenditure was less than the sum voted by Parliament and any voted sums not paid over to the Household reverted to the Department and the Exchequer.

¹ Prior to April 1997, the cost of official royal travel by air was met and managed by the Ministry of Defence and the Foreign and Commonwealth Office, and the cost of rail travel was met by the then Department of Transport. In June 1997, the Department of the Environment, Transport and the Regions was formed by the merger of the Department of Transport and the Department of the Environment.

² Parliamentary Annuities are fixed annual amounts paid to members of the Royal Family other than The Queen, principally to meet the costs incurred in carrying out official engagements. The Queen has, of her own volition, reimbursed the Exchequer for all annuities except those for The Queen Mother and the Duke of Edinburgh.

The majority of expenditure and savings were on air travel

- Ninety per cent of expenditure, and of the savings since 1997-98, relate to expenditure on air travel, with savings being achieved through the replacement of Royal Air Force helicopters by the Household's own helicopter service, switching to the use of more economical aircraft, and a reduction in the rates charged by the Ministry of Defence for use of fixed-wing aircraft of the Royal Air Force's 32 (The Royal) Squadron (referred to as 32 Squadron from this point on).
- Over the three years since the new arrangements began, there has been a 56 per cent fall in expenditure on air travel, from an initial budget of £17.2 million in 1997-98 (based on actual costs in 1996-97, adjusted to provide a baseline for the new arrangements) to £7.5 million in 1999-2000. At the same time, there was a six per cent fall in the number of air miles travelled by members of the Royal Family.
- Reductions in expenditure resulted from the charges for using the fixed-wing aircraft of 32 Squadron, which fell from the £11.8 million originally budgeted in 1997-98 to £4.2 million in 1999-2000, a reduction of 64 per cent. This reflected a reduction in the number of flying hours planned and used by the Household, a switch from the larger more expensive BAe146 to the smaller BAe125 aircraft, and reductions in the unit charges for the use of these aircraft. Charges for 32 Squadron are expected to fall again in 2000-01, to £1.8 million, due to further reductions in the use of, and unit charges for, the Squadron's fixed-wing aircraft.
- The Household also achieved a significant reduction in expenditure by switching in 1998 from the use of 32 Squadron's Wessex helicopters to its own helicopter operation, which it set up after reviews which indicated savings of up to £2.1 million a year. Between 1997-98 and 1999-2000, the number of helicopter hours flown increased, with the new helicopter service displacing more expensive travel by the Squadron's larger fixed-wing aircraft.

The basis of charging for royal use of 32 Squadron needs to be reviewed

- The current system of charges for 32 Squadron, intended to recover the full costs of the Squadron's operation, was agreed between the Ministry of Defence, the Department, the Treasury and the Household when the new grant-in-aid arrangements were introduced. In April 1995 The Queen's Flight and the former 32 Squadron had been combined to form the new Squadron, serving military communications and royal flying roles. Royal flying accounted for a higher proportion of the new Squadron's capacity than is now the case, and all parties were rightly concerned to ensure that the full costs of using the Squadron were taken into account in decisions as to its capacity and use.
- However, in September 1999, following a review, the Ministry formally recognised that the principal purpose of 32 Squadron was to provide communications and logistical support to military operations; the Squadron's capacity should be based on military needs only; and any royal or other non-military use of irreducible spare capacity was secondary to its military purpose. Treasury guidance on fees and charges allows for charges to be set to cover variable or marginal costs when assets (in this case 32 Squadron's aircraft) are held on standby for their principal role and can be made available to other users without detriment to this role. Non-military users of the Squadron other than the Royal Family are charged only for the variable costs of that use. As a result of our enquiries, the Ministry, the Department and the Treasury have now agreed to change the basis of



charging. A change to variable cost charging will benefit the taxpayer, because it allows the Household to use 32 Squadron when the variable cost of 32 Squadron is lower than the costs of a charter, so long as 32 Squadron has planes available.

The Household has established effective arrangements for procuring chartered and scheduled flights

- Expenditure on chartered flights increased from around £0.9 million in 1997-98 to just over £1.1 million in 1999-2000. Over that period, the total miles³ travelled on chartered flights rose by 6 per cent. For chartered flights, the Household seeks quotes from two airlines and a broker. The Household's specification for the charter of aircraft is detailed and exacting, and there are few airlines able to make such aircraft available for hire. The Household told us that it reviews its choice of broker every two years and plans to do so later in 2001.
- In contrast, expenditure on scheduled flights fell by 30 per cent from just under £0.47 million in 1997-98 to just over £0.3 million in 1999-2000. Over that period, the total miles travelled by scheduled aircraft fell by 24 per cent, with a 16 per cent reduction in the cost per mile. For scheduled flights, the Household has a longstanding agreement with British Airways, last negotiated in 1998, which provides a range of discounts on published fares. In general, the rates of discount obtained by the Household on scheduled flights since 1998 compare very well with those obtained elsewhere in the public sector and by companies with a similar volume of business travel. However, the air travel industry is highly competitive, and airlines may change their pricing structures from time to time. There may therefore be scope for the Household to take advantage of lower fares offered elsewhere; whilst members of the Royal Family might expect to fly the flag and use a British carrier, around a third of scheduled flights are made by staff of the Household.

The Household has also reduced expenditure on royal travel by rail

- Expenditure on rail travel has fallen by more than half, from an original budget of £1.9 million in 1997-98 to expenditure of £0.8 million in 1999-2000; even though the number of rail miles more than doubled.
- The Household has reduced the cost of the royal train by cutting back the number of carriages maintained and operated, from 14 to 9, by rationalising maintenance to more accurately reflect coach usage, and by renegotiating planning and co-ordination charges with its supplier.
- The Department and the Household appointed consultants to assist in the disposal of surplus royal train carriages, which had been purchased and maintained at public expense by the Department and its predecessors. The sale of these vehicles resulted in receipts of £0.235 million to the Exchequer.

The Household and Department have introduced systems to better administer royal travel

- Since the new arrangements came into place, to improve accountability and transparency the Household has published an annual report on the grant-in-aid for royal travel, including audited accounts and a listing of every journey costing more than £500.

³ The Household uses miles travelled by members of the Royal Family as a principal measure of performance. Cost per mile is calculated by dividing all costs, including the cost of journeys by staff of the Household, by the number of miles travelled by Family members. Unless otherwise stated, all references in this report to miles travelled and cost per mile are on this basis.

- The Household has introduced a system to document and to bring cost considerations to bear on decisions about modes of travel for all official journeys costing more than £2,500 or which use 32 Squadron, the royal helicopter or royal train; and a full explanation is required in cases where only one option is identified or the preferred option is not the cheapest.
- The definitions of official travel, and of official passengers whose travel is paid for from the grant-in-aid, are covered in guidance produced by the Household. This guidance supersedes guidance issued by the Cabinet Office and in the Financial Memorandum, and has been approved by the Department. The guidance does not make clear that "staff of the Household" has, since before the grant-in-aid, included all direct employees, as well as experts and specialists, such as doctors, hairdressers and artists invited by members of the Royal Family for a specific engagement. The guidance does not include a specific procedure for consultation with the Department in cases of doubt, although the Household assured us that this would happen if any significant amounts were involved.
- The Household has instituted systems to collect repayments due in respect of private travel by members of the Royal Family and reimbursable travel by journalists and others. In general, this system works well but reimbursement could be speedier and the Household itself needs to retain better records to evidence the amounts to be recharged to the media.



- Under the terms of the Financial Memorandum, the Department is responsible for ensuring that the grant-in-aid is not drawn down in advance of need. During 1998-99 and 1999-2000, the Household's month-end cash balance fell below its contingency level of around £300,000 on one occasion. This contingency provision went up from £250,000 to over £300,000, although average monthly expenditure halved from £1.5 million in 1997-98 to £730,000 in 1999-2000. Even though the surplus funds held by the Household are banked and earn good rates of interest, it is a precept of government accounting that such balances can be better used by the Exchequer and should be kept at a minimum. Following our examination, the Department and the Household have agreed to review the level of contingency.

Conclusion and recommendation

- 3 The Household has made very good progress in making significant reductions in expenditure on royal travel whilst maintaining flexibility and standards of provision. At the same time, there is greater transparency and accountability for this expenditure. Our main recommendation, which has now been accepted, is that the Department, the Ministry and the Treasury should agree that the Household's use of 32 Squadron be charged at variable rather than full cost, to better represent the cost to the taxpayer and as a basis for deciding between travel options to minimise overall costs to the taxpayer. Other, more minor, recommendations are included in the main text of the report and brought together at Appendix 1.



Part 1

Introduction

What this report is about

- 1.1 Each year, the Royal Family undertakes many engagements for or on behalf of the nation, the armed services and a wide range of other organisations across the public, private and voluntary sectors. Since April 1997⁴ the cost of the Royal Family's and Household's travel by air and rail for official purposes has been met by a grant-in-aid from the Department of the Environment, Transport and the Regions (the Department). In the three years since that date, expenditure totalling some £39 million has been met by grant-in-aid, and in 2000-01 expenditure is expected to be £5.4 million. This report looks at how the Royal Household (the Household) and the Department administer and control the grant to ensure that value for money is obtained on behalf of the taxpayer.
- 1.2 This report is the second under new arrangements introduced in 1998 that provide for the National Audit Office to have direct access to the records of the Household in relation to the grants-in-aid for the upkeep of the occupied royal palaces and for royal travel by air and rail. Our first report under these arrangements, "Maintaining the Royal Palaces" (HC 563 of 1999-2000), was published in June 2000.
- 1.3 The cost of royal travel by sea was met by the Ministry of Defence until the decommissioning of the royal yacht Britannia in December 1997 and the expenditure was never charged to the grant-in-aid; since then, there has been no royal travel by sea. The cost of royal travel by car is met from the Civil List, Parliamentary Annuities⁵ or from the Royal Family's own resources. Royal travel by car and sea is therefore outside the scope of this report.

- 1.4 Our report covers the period from the beginning of the new grant-in-aid arrangements, in 1997-98, to the most recent financial year 2000-01. Since the outturn figures for 2000-01 are not yet audited and finalised, our detailed analysis of trends and data covers the period to 1999-2000.

Royal travel by air and rail

- 1.5 The Royal Family and Household use a variety of air and rail travel provision (**Figure 1**). Some transport is principally available for royal use, such as the royal train and helicopter service; the Royal Family also uses around 10 per cent of the flying time of the aircraft of the Royal Air Force's 32 (The Royal) Squadron (referred to as 32 Squadron); whilst other travel is undertaken using chartered or scheduled services.

⁴ In June 1997, the Department of the Environment, Transport and the Regions was formed by the merger of the Department of Transport and the Department of the Environment.

⁵ Parliamentary Annuities are fixed annual amounts paid to members of the Royal Family other than The Queen, principally to meet the costs incurred in carrying out official engagements. The Queen has, of her own volition, reimbursed the Exchequer for all annuities except those for The Queen Mother and the Duke of Edinburgh.

1 Royal travel by air and rail

The Royal Family and Household use a variety of travel provision.

Air Travel	Transport type	Details when used	Examples of use
	Chartered aircraft	For overseas trips, where the number of travellers, volume of luggage in the Royal party, and itinerary rule out the use of scheduled services.	The Prince of Wales' visit to Trinidad, Tobago, Guyana and Jamaica in February - March 2000.
	Scheduled aircraft	For overseas journeys by members of the Royal Family and their staff, subject to availability and timing. Security arrangements can be disruptive to other travellers.	The outward leg of the Duke of York's visit to the United States to start a tour of the Overseas Territories of Anguilla, British Virgin Islands, Montserrat and Turks and Caicos Islands in March 2000.
	BAe146 <i>(operated by 32 Squadron)</i>	Two four-engined military jets with capacity for up to 21 passengers plus luggage. The BAe146 can land at a conventional airfield or prepared airstrips and is used mainly for UK and European flights.	The Queen and the Duke of Edinburgh's return journey from Birmingham in March 2000 after a series of engagements in the Midlands.
	BAe125 <i>(operated by 32 Squadron)</i>	Five twin-engined military jets with capacity for up to seven passengers plus luggage. The BAe125 can only land at a conventional airfield or prepared airstrips and is used mainly for UK and European flights.	The Princess Royal's visit to Edinburgh in September 1999 to open the fire station at Westfield Farm and visit HM Detention Centre Glenochil.
	S76 helicopters <i>(one operated by the Household and one chartered)</i>	Helicopters seating up to six passengers. Limited luggage space, but more flexible take off and landing arrangements than the BAe146 or BAe125.	The visit by the Duke of Kent to the 1st Battalion, Royal Regiment of Fusiliers in October 1999.
Rail Travel			
	Royal train <i>(9 carriages)</i>	Travel to UK mainland destinations where overnight accommodation is required. Often used where a member of the Royal Family has a morning engagement. The locomotives are provided and charged for by the English, Welsh and Scottish Railway.	The Queen, the Duke of Edinburgh and the Prince of Wales travelled overnight on the royal train in May 1999 to attend the opening ceremony of the National Assembly for Wales.
	Scheduled train <i>(one operated by the Household and one chartered)</i>	Hire of a carriage or seats on a scheduled service, when appropriate.	The Queen and the Duke of Edinburgh's return from Sandringham in January 2000.

Source: National Audit Office

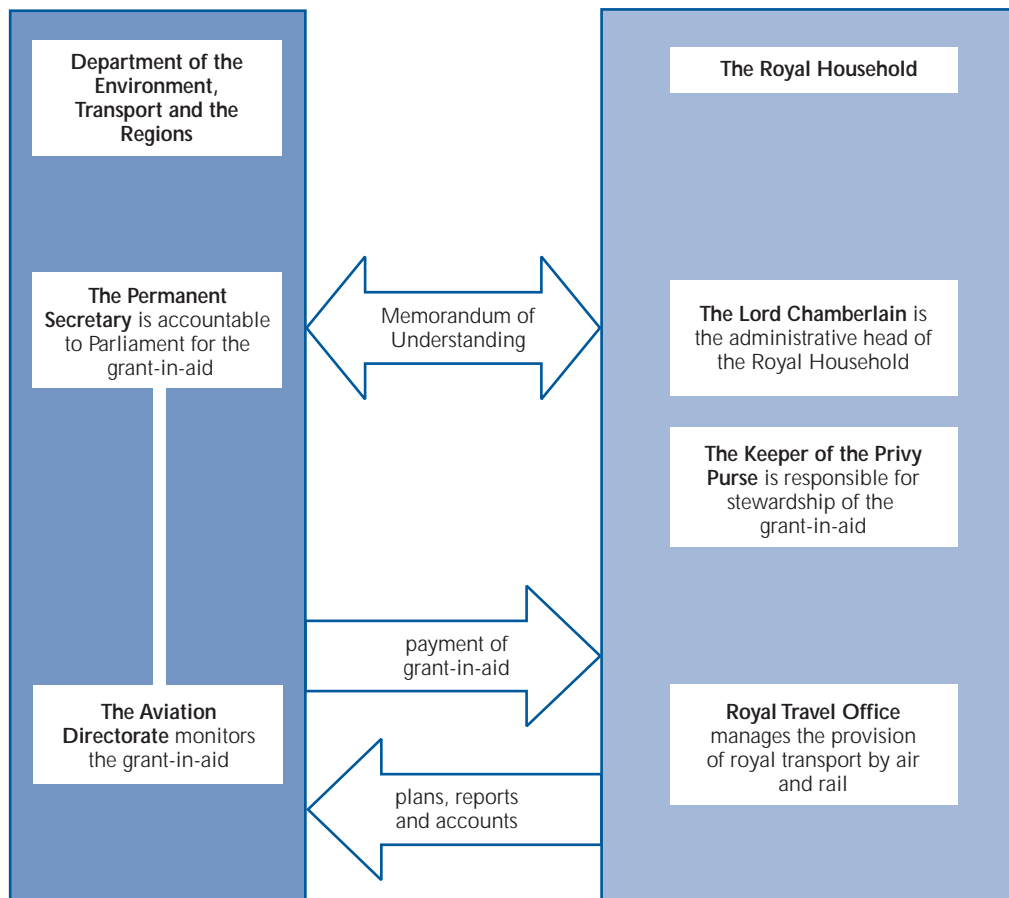
The grant-in-aid

1.6 Prior to April 1997, the cost of official royal travel by air was met and managed by the Ministry of Defence and the Foreign and Commonwealth Office, and the cost of rail travel was met by the then Department of Transport. In April 1997 the Government introduced, at the Household's suggestion, new arrangements for a single grant-in-aid to meet the costs of official royal travel by air and rail. These new arrangements were introduced to enhance value for money, by bringing together financial and user responsibility for royal travel provision, and to increase transparency and accountability for this expenditure. Under these arrangements, the Department oversees the payment of the grant and scrutinises the expenditure charged to it. The Household has day to day responsibility for administering the grant and managing royal travel arrangements. Within the Household, the Queen's Private Secretary has responsibility for the policy for royal travel, and the Keeper of the Privy Purse has responsibility for financial matters including stewardship of the grant-in-aid (Figure 2).

- 1.7 A Financial Memorandum between the Department and the Household sets out the terms of the grant. At the outset, and in view of the newness of the grant-in-aid arrangements, it was agreed that the Financial Memorandum would be reviewed after three years, in July 2000. In view of our examination, the Department and the Household decided to delay this review until after we had completed our work, so that any conclusions and recommendations could be taken on board.
- 1.8 The grant-in-aid is voted annually by Parliament and is paid in advance each month by the Department to the Household to cover the anticipated cost of travel. Any undrawn grant not needed to cover expenditure is retained by the Exchequer. To improve accountability and transparency for its use of the grant-in-aid, each year the Household produces annual financial statements for the grant, which are currently audited by accountants KPMG (appointed by competitive tender), and a report on its stewardship of the grant which lists all journeys costing more than £500. The Household's latest report on royal travel by air and rail, for 1999-2000, was published in June 2000.

2 Responsibility for the grant-in-aid

The Department controls the grant-in-aid and monitors expenditure. The Household arranges and pays for royal travel.



Note: The annual report is submitted to the Department by the Private Secretary to the Queen and the Keeper of the Privy Purse, as the Household officials with responsibility for the grant-in-aid.

Source: National Audit Office

1.9 **Figure 3** shows the net expenditure met by grant in 1999-2000. The majority of expenditure, some £7.5 million (87 per cent), was spent on air travel. Rail travel cost £0.8 million (9 per cent of expenditure), and administration and other costs amounted to £0.3 million (3 per cent).

1.10 The Royal Travel Office, staffed by the Director of Royal Travel with two assistants, is responsible for organising the provision of travel services. Accounting and administrative support is provided by the Director of Finance; the Financial Controller; the Accountant, Royal Travel; and a clerk, with part of their salaries charged to the royal palaces grant-in-aid. The remaining nine staff - an operations manager, four pilots and four ground crew - operate the royal helicopters. The salary costs (£468,000 in 1999-2000) of the 16 (13.7 full time equivalents) staff employed by the Household in connection with royal travel are included in administration and other costs, and in the cost of helicopters in Figure 3.

1.11 The Financial Memorandum defines official royal travel as:

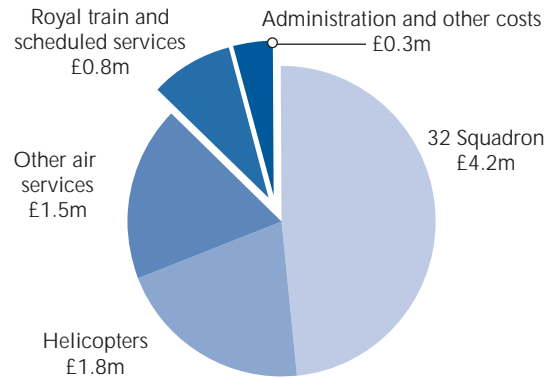
- travel by rail or air by members of the Royal Family in pursuance of their royal functions; and
- travel by rail or air by members and staff of the Household where the journeys are undertaken directly in connection with the royal functions of the members of the Royal Family.

The definition of official royal travel was set out in Cabinet Office guidance issued in 1990, which has been largely superseded by guidance developed in 1997 and updated thereafter by the Royal Household in consultation with the Department, the Treasury, the Cabinet Office, the Ministry of Defence and the Foreign and Commonwealth Office. This guidance, and arrangements for who can travel, are discussed in Part 3 of this report.

1.12 The Financial Memorandum permits the Household to defray part of the cost of chartering aircraft by offering spare seating capacity to the media. It also allows for the four most senior members of the Royal Family to use 32 Squadron for private travel and to reimburse the grant-in-aid for the costs incurred.

3 Net expenditure met from the grant-in-aid in 1990-2000

Air travel accounted for 87 per cent of net expenditure charged to the grant-in-aid in 1999-2000.



- Notes: 1. Expenditure is shown after deduction of reimbursements of £84,000 and interest earned of £55,000
2. Other air services includes payments totalling £76,000 (inc VAT) to the Ministry of Defence for the use of military helicopters for royal travel in Northern Ireland

Source: *The Royal Household*

What we did

1.13 We examined whether the arrangements for administering and monitoring royal travel provide value for money for the taxpayer. In particular, in Part 2 of this report we review trends in expenditure and the volume of travel undertaken; and the extent to which competition and other measures have been used to bring down the costs of royal travel. In Part 3 we look at the controls over who can travel and how; reimbursement arrangements for private and media travel; and the funding and accounting arrangements for the grant-in-aid. Our main focus was on expenditure during the first three years of the new grant-in-aid arrangements 1997-98 to 1999-2000, although we also reflect more briefly on expenditures and developments prior to this period and during 2000-01.

1.14 In April 1998, in response to recommendations by the Committee of Public Accounts, the Government agreed arrangements that allow the National Audit Office direct access to the Household's records relating to expenditure financed by the grant-in-aid. We received full co-operation from the Household and KPMG in carrying out our work.

- 1.15 In accordance with the new access arrangements we drew on KPMG's financial audit work relating to the accounts for 1999-2000. We discussed their audit plan with them, and examined their working papers when their audit was completed. Their audit report included assurances beyond those normally given in a financial audit - it confirmed that the Household had adhered to Government Accounting requirements, met the Department's reporting requirements and had spent the grant-in-aid for the intended purpose. They also reported that no matters had come to their attention which indicated that material items of expenditure of a wasteful or extravagant nature had been charged to the grant-in-aid. As is normal for a financial audit, KPMG's terms of reference did not require them to give a direct opinion about the value for money achieved by the Household. Their examination and working papers related to forming an opinion on the accounts and the other matters mentioned above, and thus the scope of their work did not necessarily address all of the issues relevant to our examination.
- 1.16 We therefore arranged with the Department to examine some issues directly at the Household. We interviewed or consulted key staff and reviewed documentation and correspondence relating to royal travel by air and rail. We engaged a travel consultant to review the terms the Household had negotiated with providers of air travel. Our detailed analysis focused on 27 (out of 550) official journeys and three (out of seven) private journeys (listed in the Appendix 2 to this report) which together, after deducting reimbursements, accounted for 43 per cent of net expenditure in 1999-2000. Of these transactions, 12 had already been selected and tested by KPMG for their audit of the grant-in-aid. Our sample reflected the relative proportions of journeys by each mode of travel used by the Household and included the three most expensive journeys, each costing over £100,000. Amongst our sample of 27 were four journeys where reimbursements were due.

Part 2

Reducing expenditure on royal travel

2.1 This Part examines trends in expenditure on royal travel, and reviews the extent to which royal travel provision has been subject to competition and challenge to reduce this expenditure.

Trends in expenditure on royal travel

Expenditure charged to the grant-in-aid

2.2 The grant-in-aid voted by Parliament, and expenditure charged to the grant-in-aid for royal travel by air and rail, have both reduced significantly since the Household took over responsibility for managing its own travel in April 1997 (Figure 4). In 2000-01, the grant voted for royal travel was £7.3 million, compared to the £19.4 million voted in 1997-98 - a reduction of 62 per cent. Net expenditure charged to the grant-in-aid fell from £17.3 million in 1997-98 to £5.4 million in 2000-01, a reduction of 69 per cent, and in each year was less than the sum voted by Parliament. Grant voted but not expended reverted to the Department and the Exchequer.

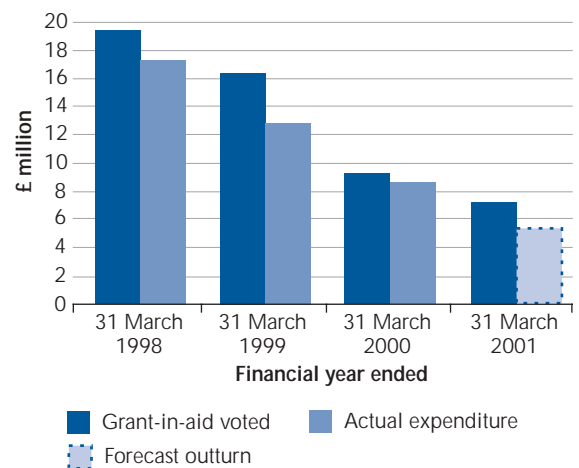
2.3 In June 2000, the Household produced its first five year plan for royal travel, setting out its planning assumptions to 31 March 2005. From 2001-02 the Household forecasts annual increases in expenditure of between 2 and 5 per cent a year in cash terms.

2.4 Figure 5 (overleaf) shows a breakdown of gross expenditure on royal travel by air and rail charged to the grant-in-aid between 1997-98 and 1999-2000, the period for which audited accounts and detailed travel data were available. During this period, total

expenditure fell from an initial budget of £19.4 million for 1997-98 (based on actual costs in 1996-97, adjusted to provide a baseline for the new arrangements in 1997-98) to £8.6 million in 1999-2000, a reduction of 56 per cent in total. Air travel represented the largest element of grant expenditure, accounting for around 90 per cent of the expenditure over these three years, and this has fallen by 56 per cent over the same period. Expenditure on rail fell by around 60 per cent over the same period.

4 Royal travel expenditure and grant, 1997-98 to 2000-01, in cash terms

In the three years since the Household assumed responsibility for royal travel, both the level of grant voted and expenditure on royal travel have more than 60 per cent.



Note: Actual expenditure figures are shown after the deduction of interest and reimbursements, which totalled £209,000 in 1997-98, £223,000 in 1998-99, and £139,000 in 1999-2000.

Source: National Audit Office

5 Grant-aided expenditure on royal air and rail travel, since April 1997

Savings on both air and rail travel have contributed to the reduction in expenditure.

	1997-98 budget £m	1997-98 actual £m	1998-99 actual £m	1999-2000 actual £m
Air travel	17.2	15.9	11.7	7.5
Rail travel	1.9	1.2	0.8	0.8
Administration and other costs	0.3	0.2	0.3	0.3
Total net expenditure charged to the grant-in-aid	19.4	17.3	12.8	8.6

Notes: 1. These figures include reimbursements, repayments and bank interest, which have been deducted from expenditure.

2. Charges by Ministry of Defence for use of military helicopters for royal travel in Northern Ireland of £74,000 and £76,000 are included in air travel expenditure for 1998-99 and 1999-2000 shown above.

Source: *Royal Household's annual reports*

6 Miles travelled and cost per royal mile, since 1997

Since 1997-98, the cost per mile of royal travel has fallen significantly, by 53 per cent for air and 73 per cent for rail.

	1997-98 budget	1997-98 actual	1998-99 actual	1999-2000 actual
Air				
Royal miles ¹ travelled	390,158	390,158	355,945	368,261
Cost ² per royal mile travelled	£43	£41	£33	£20
Rail				
Royal miles ¹ travelled	8,854	8,854	15,644	19,599
Cost ² per royal mile travelled	£152	£135	£52	£39

Notes: 1. Miles travelled by air excludes the use of military helicopters for royal travel in Northern Ireland.

2. Cost per royal mile travelled is the total expenditure on air and rail travel by the Royal Family and Household each financial year divided by the total air and rail miles travelled by members of the Royal Family in that year.

Source: *The Royal Household*

Cost per mile travelled

- 2.5 The Household uses and reports miles travelled by members of the Royal Family as its prime measure of the volume of travel, and the cost per royal mile travelled as a measure of economy. **Figure 6** shows the trends in these headline indicators since 1997-98:
- the cost per mile of air travel by members of the Royal Family fell by 53 per cent, whilst the numbers of miles flown by members of the Royal Family fell by 6 per cent; and
 - the cost per mile of rail travel by members of the Royal Family fell by 74 per cent, whilst the number of rail miles travelled rose by 121 per cent.
- 2.6 In the paragraphs that follow, we examine how the reduction in expenditure since 1997-98 has been achieved.

Switching from 32 Squadron aircraft to the Household's own helicopter

- 2.7 Savings on air travel in part reflect a shift away from more expensive to cheaper modes of air transport, as shown in **Figure 7** overleaf. Compared to the last year under the old arrangements, the Household's use of 32 Squadron's smaller BAe125 aircraft has increased (by 74 per cent) but its use of the larger, more expensive BAe146 aircraft has reduced (by 70 per cent). At the same time, the Household has increased its use of helicopters (by 38 per cent). With respect to helicopters, the comparatively expensive 32 Squadron Wessex helicopters were taken out of service in March 1998 in favour of the Household's own helicopter (which came into service in April 1998) and chartered helicopters.

Replacement of the Wessex helicopters

- 2.8 In March 1997, shortly before assuming responsibility for the grant-in-aid, the Household told the Ministry of Defence that it had concerns about the reliability, maintenance and operating cost of the two 28-year old Wessex helicopters operated by 32 Squadron. Following an initial meeting, the Household reviewed its helicopter requirement and commissioned a consultant to help with this process. The review concluded that the Wessex helicopters were outdated, of limited capability and more than six times more expensive to operate per hour than a modern, chartered helicopter.

- 2.9 The Ministry of Defence accepted the Household's need for a replacement helicopter and, in July 1997, the Ministry began a procurement review with a view to bringing the new helicopter into service by June 1998. At the same time the Ministry of Defence identified potential annual savings of £0.8 million in helicopter costs from August 1997, as a result of a new contract covering aircraft maintenance and other aspects of running 32 Squadron's base at RAF Northolt. The Ministry of Defence's review confirmed further potential savings of £1.2 million a year from the replacement of the Wessex helicopters. The review did not, however, take into account further annual savings of £0.9 million which the Household's consultant had suggested could be obtained by operating from a cheaper civilian base using civilian rather than Air Force pilots. The Household was also concerned that a new Ministry of Defence helicopter would not be available until late June 1998, during which time the Wessex helicopters would be costing £175,000 a month more than their replacement.

- 2.10 In January 1998, the Ministry of Defence confirmed that it could not have a replacement aircraft in service by April 1998 and noted that a civilian registered and manned solution would be cheaper. It was therefore accepted that the Household should take on the procurement process. The Household had just over two months to procure a replacement helicopter, if the Wessex were to be withdrawn by the planned date of April 1998. The Household, on the advice of its consultant and with the Department's approval, established its own royal helicopter service, acquiring a Sikorsky 76C+ helicopter on a ten-year operating lease, operated from a civilian base and flown and supported by Household staff. This initiative has resulted in estimated savings of around £6 million in the three years to March 2001.

- 2.11 From April 1998 until the S76C+ helicopter came into service in January 1999, the Household leased a Sikorsky 76B from the same company. From late 1999, the Household has taken the opportunity to purchase additional hours of Sikorsky 76B helicopter flying time (with a guarantee of 80 hours and up to 150 hours available if required), under a retained charter agreement from another supplier, to cover occasions when the royal helicopter is in use and a similar helicopter is required by another member of the Royal Family. Under the charter agreement, unused flying hours can be carried forward from one year to the next at no additional cost to the Household.

7 Trends in air travel, 1996-97 to 1999-2000

The use of helicopters has increased by 38 per cent, whilst use of the BAe146 aircraft has reduced by 70 per cent since the new arrangements began.

Mode of travel	Flying hours			
	1996-97	1997-98	1998-99	1999-2000
BAe146	645	335	183	191
BAe125	114	191	188	198
Helicopters	409	258	466 ¹	566 ¹
Total	1168	784	837	955

	Royal miles travelled			
Scheduled aircraft	Not available	156,067	151,194	118,953
Chartered aircraft	Not available	77,443	72,928	82,437

Notes: 1. 1998-99 and 1999-2000 helicopter flying hours include the Household's helicopter, plus chartered helicopters.

2. Helicopter flying hours exclude the use of military helicopters for royal travel in Northern Ireland.

Source: *The Royal Household*

The charges for use of 32 Squadron fixed-wing aircraft

2.12 Charges for use of the Squadron's fixed-wing aircraft fell from the £11.8 million originally budgeted for 1997-98 to £4.2 million in 1999-2000, a fall of 64 per cent (Figure 8). This reflected both a reduction in royal use of the Squadron, set out in the preceding section, and reductions in the unit charges for that use.

2.13 Up to 31 March 2000, the Ministry charged the Household separately for the fixed and variable costs of using aircraft from 32 Squadron:

- Charges to cover fixed costs - predominantly 32 Squadron salaries and training, engineering, depreciation, interest on capital and a share of RAF Northolt overheads - were based on the Household's annual forecast of the number of BAe146 and BAe125 flying hours that would be required and purchased from 32 Squadron.
- Charges for variable costs - mainly fuel, power-by-the-hour⁶ costs for airframe and engine maintenance, handling and landing fees, and pilot and ground crew travel and subsistence costs - were based on the number of hours the aircraft was actually flown, including the time to position aircraft before and after royal use.

2.14 When the Household took over responsibility for royal travel in April 1997 the Ministry did not have sufficient information on the composition of its charges for 32 Squadron to demonstrate that the charges were fair and reasonable. Subsequently, and as the financial systems at RAF Northolt were improved in preparation for the introduction of resource accounting, the Household and the Ministry worked together to improve the accuracy and fairness of the Ministry's costing methods, including the calculation of variable costs and the apportionment of overheads between users. In addition, some economies were made, principally through a new form of maintenance contract and a reduction in the number of aircraft which was in part due to the reduction in royal use of the Squadron. As a result, unit charges per hour fell by between 3 and 29 per cent, an average reduction of around 7 per cent (Figure 8).

2.15 The 64 per cent reduction in the total charges for use of 32 Squadron fixed-wing aircraft resulted in part from a reduction in the number of flying hours planned and used by the Household, as it switched from the BAe 146 to its own helicopter service and other cheaper aircraft; planned hours, on which fixed charges are levied, fell by 45 per cent; whilst actual hours, on which variable charges are levied, fell by 26 per cent (Figure 9).

⁶ Power-by-the-hour is a technical term for a contract, usually on a new aircraft, under which the lifetime costs of providing, for example, engine parts and labour, are calculated in advance, based on estimated operating hours, and paid monthly over the lifetime of the contract.

8 Fixed and variable charges to the Household for use of 32 Squadron fixed-wing aircraft

Total charges to the Household for using 32 Squadron have reduced significantly since April 1997.

Total Charges	1997-98 budget £m	1997-98 actual £m	1998-99 actual £m	1999-2000 actual £m	Reduction ¹
Fixed charges ²	9.2	9.4 ³	8.5	3.8	59%
Variable charges ⁴	2.6	0.9	0.5	0.4	85%
Total	11.8	10.3	9.0	4.2	64%

Unit Charges

Fixed

Per planned hour BAe146	n/a	£10,763	£12,868	£10,428	3%
Per planned hour BAe125	n/a	£5,131 ³	£6,760	£4,662	9%

Variable

Per actual hour BAe146	n/a	£1,706	£1,952	£1,213	29%
Per actual hour BAe125	n/a	£800	£653	£622	22%

- Notes
- The reductions in the final column for total fixed charges and total variable charges are calculated by comparing the 1999-2000 outturn with the 1997-98 budget, which represents the best estimate of charges before the Household assumed full responsibility for royal travel arrangements. Reductions in the charges per planned and actual hour are calculated by comparing the 1999-2000 outturn with 1997-98 actual expenditure.
 - Fixed charges have been apportioned by the Ministry of Defence on the basis of planned flying hours.
 - 1997-98 fixed charges included an additional one-off VAT charge of £200,000 which has been excluded from the calculation of hourly rates, for the purposes of comparison.
 - The variable charges total for each year also includes handling, landing and subsistence charges which are excluded from the hourly rates shown in the Figure.

Source: The Royal Household

9 Fixed-wing flying hours purchased and used, 1997-98 to 1999-2000

Since 1997-98, the Household has reduced the number of flying hours planned and used for the BAe146.

	1997-98	1998-99	1999-2000	Total
BAe146				
Hours planned	799	545	250	1,594
Hours used	335	183	191	709
BAe125				
Hours planned	109	215	250	574
Hours used	191	188	198	577
Percentage of planned hours used (both aircraft types)	58	49	78	59

Source: The Royal Household

10 Scheduled and chartered flights, 1997-98 to 1999-2000

Since 1997-98, use and cost of chartered flights has risen, whilst the use and cost of scheduled flights has fallen.

	1997-98	1998-99	1999-2000
Chartered flights			
Expenditure	£915,000	£991,000	£1,144,000
Miles travelled	77,443	72,928	82,437
Scheduled flights			
Expenditure	£473,000	£370,000	£304,000
Miles travelled	156,067	151,194	118,953
Cost per mile	£3.03	£2.45	£2.55
Total costs	£1,388,000	£1,361,000	£1,448,000

Note: 1. No cost per mile is computed for chartered flights since the itinerary, size of aircraft and size of party will depend on the nature of the visit, the programme for which is determined by the Foreign and Commonwealth Office.

Source: The National Audit Office

2.16 The move away from 32 Squadron seems set to continue, at least whilst the current charging regime is in place. From April 2000, the Household has negotiated a single composite rate with the Ministry of Defence, covering fixed and variable costs. Overall, the total annual charge to the Household for using 32 Squadron's services in 2000-01 is forecast to reduce to £1.8 million, a fall of 57 per cent compared with 1999-2000. This reflects a 44 per cent reduction in the number of planned flying hours purchased, from 500 in 1999-2000 to 280 in 2000-01 and further reductions, of 25 to 31 per cent, in the hourly rates charged by the Ministry of Defence. These reductions in hourly rates resulted when the Ministry agreed that it would no longer seek to recoup from the Household those costs which were not directly related to royal fixed-wing flying, for example support manpower, pest control, catering and laundry.

The basis of charging for royal use of 32 Squadron needs to be reviewed

2.17 The basis of charging adopted in April 1997, intended to recover the full costs of the Squadron's operation, was agreed between the Household, the Department, the Treasury and the Ministry of Defence. In April 1995 The Queen's Flight and the former 32 Squadron had been combined to form the new Squadron, serving military communications and royal flying roles. Royal flights accounted for a higher proportion of the new Squadron's flying hours than is now the case, and royal travel requirements had a greater influence over the size and composition of the Squadron and thus its fixed costs. In general, it is sensible to base decisions about

capacity and usage on full cost so that the full financial implications can be taken into account.

2.18 A Ministry study following the Strategic Defence Review formally confirmed in September 1999 that all royal and other non-military use of 32 Squadron was secondary to its principal function of providing communications and logistical support for military operations, and that the Squadron's capacity should be based on military needs only. Treasury guidance on fees and charges allows for charges to be set to cover variable or marginal costs when assets (in this case the Squadron's aircraft) are held on standby for their principal role and can be made available to other users without detriment to this role. The Household is the only user of 32 Squadron, other than some NATO users, to be billed by the Ministry for both fixed and variable costs. The Ministry's own use of the Squadron's aircraft is not recharged within the Ministry although these users are informed of the costs. Other users of 32 Squadron, such as ministers and senior officials from other government departments, are charged the variable component of the Household's charge. Given the outcome of the Ministry's review, it is difficult to see why there should continue to be any differentiation in charges between royal and other peacetime users of 32 Squadron. As a result of our enquiries, the Ministry, the Department and the Treasury have now agreed to change the basis of charging.

2.19 This change will bring benefits to the taxpayer because it will allow the Household to use 32 Squadron when the variable cost of 32 Squadron is lower than the costs of a charter, so long as 32 Squadron has planes available. In doing so, the Household will incur less expenditure to be funded from the grant-in-aid whilst covering the Squadron's additional costs.

Chartered and scheduled flights

2.20 Expenditure on chartered and scheduled flights has remained roughly constant since 1997-98 at around £1.4 million (Figure 10).

Chartered flights

2.21 Use of chartered flights is dependent on the itinerary of the royal party, the availability and convenience of scheduled flights and their comparative cost. Until 2000-01, the Household used chartered flights solely for overseas journeys, which tend to involve relatively long distances and larger numbers of passengers than can be managed by the short range BAe146 aircraft. There were 12 overseas chartered flights in 1997-98, 11 in 1998-99 and 16 in 1999-2000. Overseas visits are undertaken at the request of the Foreign and Commonwealth Office. Under the provisions of the Financial Memorandum, the Department has been consulted about contracts, including air charters, costing more than £250,000.

2.22 For the majority of overseas state visits and tours, the Household charts large aircraft such as the Boeing 777. Selection is on the basis of competitive quotes, from two airlines and a broker. The Household's specification for the charter of aircraft for these visits is exacting and includes a requirement to reconfigure the passenger cabin and provide a back-up aircraft and standby crew. From experience, the Household has found that there are very few airlines with a sufficiently large fleet to make such aircraft available for hire.

2.23 The Household has had an arrangement with its current broker since 1997. In 1998, the Household visited another broker with a view to inviting them to participate in a market test but concluded that the current broker's Charterer's Liability Insurance gave them a competitive edge. In February 2000, the Household's internal audit recommended that consideration should be given to chartering a limited number of journeys through an alternative broker. In May 2000, the current broker's price and service were tested and found to be satisfactory in a competition with another firm. The Household told us that it reviews its choice of broker every two years and plans to do so later in 2001.

Scheduled flights

2.24 The Household makes use of scheduled flights where feasible, particularly for staff journeys:

- Household staff use scheduled flights when undertaking reconnaissance visits in advance of major UK or overseas visits or travelling between royal residences.
- 2.25 For scheduled flights, the Household has a longstanding agreement with British Airways. For some but not all official engagements, use of a British carrier is a necessary and legitimate concern of the Household. For staff journeys, which make up around a third of expenditure on scheduled flights, there is less need to "fly the flag".
- 2.26 The agreement with British Airways was last negotiated in 1998, under which the Household obtains a range of discounts on published fares. In addition, the Household obtains an alternative quote for any scheduled air journey costing over £20,000. We asked our consultant whether the discounts offered by British Airways represented a fair price both at the time the agreement was signed and in the current market. The consultant confirmed that the rates offered were very competitive at the time the agreement was signed and in general continued to be advantageous. The rates compare very well with those obtained elsewhere in the public sector and by companies with a similar volume of business travel. However, the air travel industry is highly competitive, and airlines change their pricing structures from time to time. The Household may therefore be able to take advantage of lower fares offered elsewhere. We recommend that the Household should test the price competitiveness of its current suppliers, for staff flights, and at least every two years.

Royal travel by train

2.27 Expenditure on travel by train has fallen from an original budget of £1.9 million in 1997-98 to expenditure of £0.8 million in 1999-2000, a reduction of 60 per cent. At the same time, the cost per mile of train travel has fallen dramatically (Figure 11 overleaf). The number of rail journeys has increased significantly (91 per cent) since 1997-98, with the number of journeys on scheduled rail services increasing by 142 per cent. The Household told us that The Queen, the Duke of Edinburgh and the Prince of Wales use the royal train mainly for overnight travel on longer journeys throughout Great Britain, because it provides secure accommodation, changing, dining and office facilities, is not prone to disruption by weather and arrives in the centre of towns. Scheduled rail services have sometimes been used as an alternative to scheduled air journeys.

2.28 With the privatisation of the railways in 1996-97, responsibility for and ownership of the 14 carriages which made up the royal train passed from British Rail to Railtrack for nil consideration. The train is pulled by locomotives belonging to English, Welsh and Scottish Railway. Under the current arrangements:

11 Trends in rail travel, 1997-98 to 1999-2000

The use of other rail services has increased but the royal train is preferred for overnight journeys.

	1997-98 budget	1997-98 actual	1998-99 actual	1999-2000 actual
Expenditure	£1.9m	£1.2m	£0.8m	£0.8m
Miles travelled	12,500	8,854	15,644	19,599
Cost per mile travelled	£152	£135	£52	£39
Number of royal journeys				
- Royal train	32	19	16	24
- Other rail services	-	24	60	58
Total	32	43	76	82
Average miles per journey				
- Royal train	600	567	601	602
- Other rail services	-	111	169	168

Source: *The Royal Household*

- English, Welsh and Scottish Railway, formerly known as Rail Express Systems, who were appointed by the Department in 1994, operate the train under an annual agreement with the Household.
- Railtrack owns the carriages and is responsible for journey planning, and co-ordination of the royal train service within the rail network. Railtrack also arranges overnight stabling of the rolling stock on journeys and makes available the departure and arrival station facilities.
- Railcare Limited, appointed in 1999-2000 after competition, stores the carriages between journeys, provides maintenance facilities and on-train support services to the Household, which include portering, cleaning and telephone facilities.

2.29 Under the terms of its agreement with English, Welsh and Scottish Railway, fixed charges are agreed annually in advance and paid monthly in arrears by the Household. Variable charge rates are also negotiated annually by the Household with English, Welsh and Scottish Railway and Railtrack, and paid monthly in arrears to English, Welsh and Scottish Railway. The Household also pays a proportion of English, Welsh and Scottish Railway's agreed overheads and a modest profit margin.

2.30 Fixed charges for the royal train have reduced by 63 per cent since 1997-98, following a detailed annual review of costs and charges by the Household and its rail contractors. Total variable charges have fallen over the same period by 58 per cent. The average full cost per journey has halved (Figure 12).

2.31 The Household has reduced the cost of the royal train by rationalising maintenance to more accurately reflect coach usage, and by renegotiating planning and co-ordinating charges with its supplier. The Household's review of costs also led in 1998-99 to a reduction in the number of coaches from 14 to 9. The five surplus carriages were held in storage at no cost to the Household until they could be disposed of or alternative uses found for them. The Department agreed a Memorandum of Understanding with Railtrack, which allowed the Department to dispose of the carriages by open tender and retain the proceeds, since the royal train was bought and maintained with public money. The Department appointed consultants to assist in the sale, which resulted in receipts of £0.235 million to the Exchequer for the sale of three carriages⁷. The other two surplus carriages are being retained to provide replacement parts for those carriages still in use.

12 Fixed and variable charges to the Household for use of the royal train

The fixed and variable charges for running the royal train have reduced since 1997-98, resulting in a 50 per cent reduction in the average cost per journey.

	1997-98 budget £	1997-98 actual £	1998-99 actual £	1999-2000 actual £
Fixed charges	995,000	824,000	506,000	366,000
Variable charges	861,000	330,000	273,000	364,000
Total charges	1,856,000	1,154,000	779,000	730,000
Number of journeys	32	19	16	24
Average cost per journey	£58,000	£60,737	£48,687	£30,417
Average variable cost per journey	£26,906	£17,368	£17,063	£15,167

Source: *The Royal Household*

2.32 Over the last three years the royal train has been used on 60 occasions, and was unused for much of the time. The Financial Memorandum between the Department and the Household provides for the royal train to be made available for alternative use when not required for royal travel, subject to the use being consistent with the dignity of the Crown and that it should not prejudice the safety or security of members of the Royal Family. Although the Household has sought to use appropriate private lettings to reduce the overall cost to the taxpayer, there were no expressions of interest in using the royal train in 1999-2000. To date, the train has been hired on just one occasion, when the Foreign and Commonwealth Office hired it in May 1998, meeting the £11,382 variable cost of the journey and making a contribution of £4,250 towards the fixed cost. The Household told us that it believed the lack of interest in hiring the royal train was attributable to the fact that the train is configured for overnight travel and does not have extensive conference and dining facilities.

Part 3

Administering royal travel

3.1 This Part examines other aspects of the administration of royal travel. It examines the controls over who can travel and how. It also looks at the reimbursal of the costs of private and media travel, and considers the funding and accounting arrangements for the grant-in-aid.

Controls over who can travel and how

3.2 On who can travel, the Department's Financial Memorandum, which sets out the terms of the grant, was based on 1990 Cabinet Office guidance on royal travel which permitted The Queen, Queen Elizabeth The Queen Mother, the Duke of Edinburgh and the Prince of Wales to use 32 Squadron's aircraft on all occasions and other members of the Royal Family to use them when travelling on official business. Since 1997, with the agreement of the Department, the Household has produced its own more detailed guidance on the travel to be covered by the grant-in-aid. This guidance, which was last updated in June 2000, supersedes the guidance

from the Cabinet Office and in the Financial Memorandum and has been approved by the Department. This guidance provides that staff journeys may be charged to the grant-in-aid where the journeys are undertaken directly in connection with the royal functions of members of the Royal Family. The guidance does not make clear that "staff of the Household" has, since before the grant-in-aid, included all direct employees, as well as experts and specialists, such as doctors, hairdressers and artists invited by members of the Royal Family for a specific engagement (Figure 13). The Household's guidance does not include a specific procedure for consultation with the Department in cases of doubt about whether a journey is undertaken directly in connection with royal functions, although the Household assured us that this would happen if any significant amount was involved. The Department has indicated that in response to our work it will review and where necessary revise the Financial Memorandum to provide for a consultation procedure and to review the definition of royal travel.

13 Persons whose travel on official business has been paid for by the grant-in-aid

The grant-in-aid has met the costs of travel on official business by air and rail of members of the Royal Family, their staff and where spare capacity permits, other dignitaries.

Members of the Royal Family

- The Queen
- Queen Elizabeth The Queen Mother
- The Duke of Edinburgh
- The Prince of Wales
- The Duke of York
- The Earl and Countess of Wessex
- The Princess Royal
- The Princess Margaret
- The Duke and Duchess of Gloucester
- The Duke and Duchess of Kent
- Prince Michael of Kent
- Princess Alexandra

Staff of the Household

- Full and part time employees of the Household;
- Experts and specialists invited by a member of the Royal Family for a specific engagement, for example doctors, hairdressers, artists and historians.

Others who may travel with members of the Royal Family in charter or 32 Squadron aircraft or helicopters without charge

- Lord Lieutenants and their staff in the United Kingdom;
- British Ambassadors and Consuls and their staff on overseas visits;
- Members of the Government, for example the Foreign Secretary and his wife and staff.

Source: *The Royal Household*

3.3 On defining what constitutes official travel, the Financial Memorandum requires the Household to have regard to the 1990 Cabinet Office guidance when deciding which journeys are made in pursuance of royal functions. All public functions undertaken by The Queen Elizabeth The Queen Mother, the Duke of Edinburgh and the Prince of Wales and other members of the Royal Family which appear in the Court Circular are deemed to be official. These include:

- inspecting a unit of Her Majesty's Forces;
- attending a civic ceremony;
- attendance at an important sporting event, such as an international rugby match or a test match; and
- travel between official residences by The Queen, Queen Elizabeth The Queen Mother, the Duke of Edinburgh and the Prince of Wales

3.4 The Household has introduced a system to document decisions about the mode of travel, so that the above considerations and cost are brought to bear on individual travel decisions. Private secretaries notify the Royal Travel Office in advance by telephone or in writing of all forthcoming official air and rail journeys by members of the Royal Family or the Household which will cost more than £2,500 or involve use of 32 Squadron, the royal helicopter or the royal train. Discussions then take place between the Royal Travel Office and the private secretary about the available modes of transport, their cost and the need for members of staff to visit the location in advance of the engagement. The private secretary then selects the preferred method and notifies the Royal Travel Office. If the method chosen is a scheduled rail or air service costing less than £2,500 for the whole party for the whole journey, no further approval is necessary and the booking can be made either by the Royal Travel Office or the Private Office concerned.

3.5 If the preferred mode of travel is by a 32 Squadron aircraft, royal train, royal helicopter, or a scheduled or chartered flight costing £2,500 or more:

- the Royal Travel Office drafts a "travel options form" which the private secretary submits to The Queen's private secretaries, seeking Her Majesty's approval. The form sets out the travel options available and the reasons for selecting the preferred option;
- before submission of the form to Her Majesty, a member of The Queen's Private Office scrutinises the form;
- if necessary, the financial approval of the Director of Finance or the Keeper of the Privy Purse is obtained; and

- if necessary, The Queen's Private Office discuss the option chosen with the Director of Royal Travel and the relevant private secretary, amending and updating the options form if necessary before submitting it to The Queen for her approval.

3.6 In deciding the appropriate mode of travel for official travel, the Household told us it takes into account the following factors:

- safety;
- security;
- value for money;
- consistency with the requirements and dignity of the occasion;
- the need to minimise disruption to others;
- the most efficient use of the Royal Family's time; and
- length of the journey.

Other factors considered include the nature of the engagement, the number of travellers, the member of the Royal Family's other engagements and their preferred method of transport; it is assumed that the journey will be by car if it is no more than 50 miles or 1 hour's travelling time.

3.7 As part of their audit of the 1999-2000 financial statements for the grant-in-aid, KPMG tested the travel options system and found it to be working satisfactorily; confirmed that journeys funded by the grant-in-aid complied with the definition of official journeys specified in the Financial Memorandum; and found that Her Majesty's approval was obtained where necessary for use of 32 Squadron, the royal helicopter and the royal train. The Household's internal audit also reviewed the operation of the options system in 1999-2000 and concluded that overall the systems for identifying options, ordering and purchasing travel by air and rail were operating satisfactorily, although they recommended that Household should maintain a record of all quotations received.

3.8 We examined the supporting papers for 27 official journeys (listed in Appendix 2) funded by the grant-in-aid, to see how these rules and guidance had been applied. For the journeys in our sample, we found that the travel complied with the guidance issued by the Household, and that travel option forms had been completed and authorised, as appropriate.

3.9 In a few cases, there are security concerns or operational reasons why only one method of travel is appropriate. Where two or more options have been identified, there is no requirement for the private secretary to select the cheapest option, but the reasons for not doing so must be documented. In our sample of 27 official journeys and three private journeys, in all cases where it was relevant we found that the travel option forms contained satisfactory reasons why only one travel option was provided (12 cases) or justifying the option chosen where this was not the cheapest option (4 cases).

Reimbursement of private and media travel

3.10 Some travel leads to reimbursement of travel costs:

- The Financial Memorandum allows The Queen, Queen Elizabeth The Queen Mother, the Duke of Edinburgh and the Prince of Wales to use 32 Squadron for private travel. In these instances, the grant-in-aid meets the costs of the journey in the first instance, with the costs being reimbursed by the Family members concerned. Where these or other members of the Royal Family travel on private journeys but are required to use 32 Squadron aircraft to comply with government security or safety requirements, reimbursement is at rates equivalent to the commercial business class fares for each passenger carried. Reimbursements in respect of seven private journeys by members of the Royal Family totalled some £19,000 in 1999-2000.
- Where there is spare capacity on aircraft being used for official royal journeys overseas, members of the Press and other media may travel with the royal party and reimburse costs. Reimbursement is based on the equivalent fare for the regular scheduled service plus a share, on a pro-rata basis, of any additional costs incurred by the Household. In 1999-2000, the Household recovered around £65,000 from the media.
- Where another organisation, government department or individual participates in a journey, the grant-in-aid meets the costs of the journey in the first instance, with the third party meeting an agreed proportion of the costs. In 1999-2000, reimbursements from third parties totalled some £11,500.

Since 1997 around £53,000 has been reimbursed for private journeys and around £240,000 in respect of media travel.

3.11 Responsibility for identifying reimbursements and repayments rests with the private secretaries, who notify the Royal Travel Office that a reimbursement is due. The Royal Travel Accountant prepares statements for each Private Office, giving details of the person from whom reimbursement is due, the travel undertaken, costs and the reason for the reimbursement. The Private Office is responsible for collecting the sums due. Collecting and collating the costs to be reimbursed can take some time and the Household told us that it now sought interim payments on account from journalists travelling with the Royal Family as soon as is practical after a journey. During 1999-2000, the Household implemented recommendations made by its internal audit aimed at tightening its procedures for recovery of costs from third parties on working visits and for identifying passengers who should be recharged. Recommendations were also made to speed up the recharging and recovery of costs on major overseas visits.

3.12 Four of the 27 journeys we tested had reimbursements due from accompanying journalists, and we also selected three private journeys to test the system. We checked and were able to confirm the calculation of the charge for the three private flights. However, we were unable to confirm the calculation of the sums repayable for the four other journeys where reimbursements were due from journalists, because the Household had obtained the rates by telephone from British Airways and had not retained a record. We recommend that the Household should obtain and retain facsimile confirmation of the air fares used to calculate reimbursement.

3.13 Prior to April 2000, for the journeys using its helicopter and 32 Squadron aircraft, the Household charged and recovered costs on the basis of the variable cost of the journey alone. Since April 2000, the Household has calculated all of its travel options, whether for official or private purposes, on a full cost basis. Consequently, recoveries in respect of travel on 32 Squadron, the royal helicopter and the royal train are now calculated on the basis of a single composite rate to cover full costs, which are higher than under the previous arrangements in which only variable costs were recovered. Now that the Ministry, the Department and the Treasury have agreed to change the basis of charging for 32 Squadron, as indicated in paragraph 2.18, and the Household will be charged only variable costs, private journeys by 32 Squadron should also be charged on a variable cost basis.

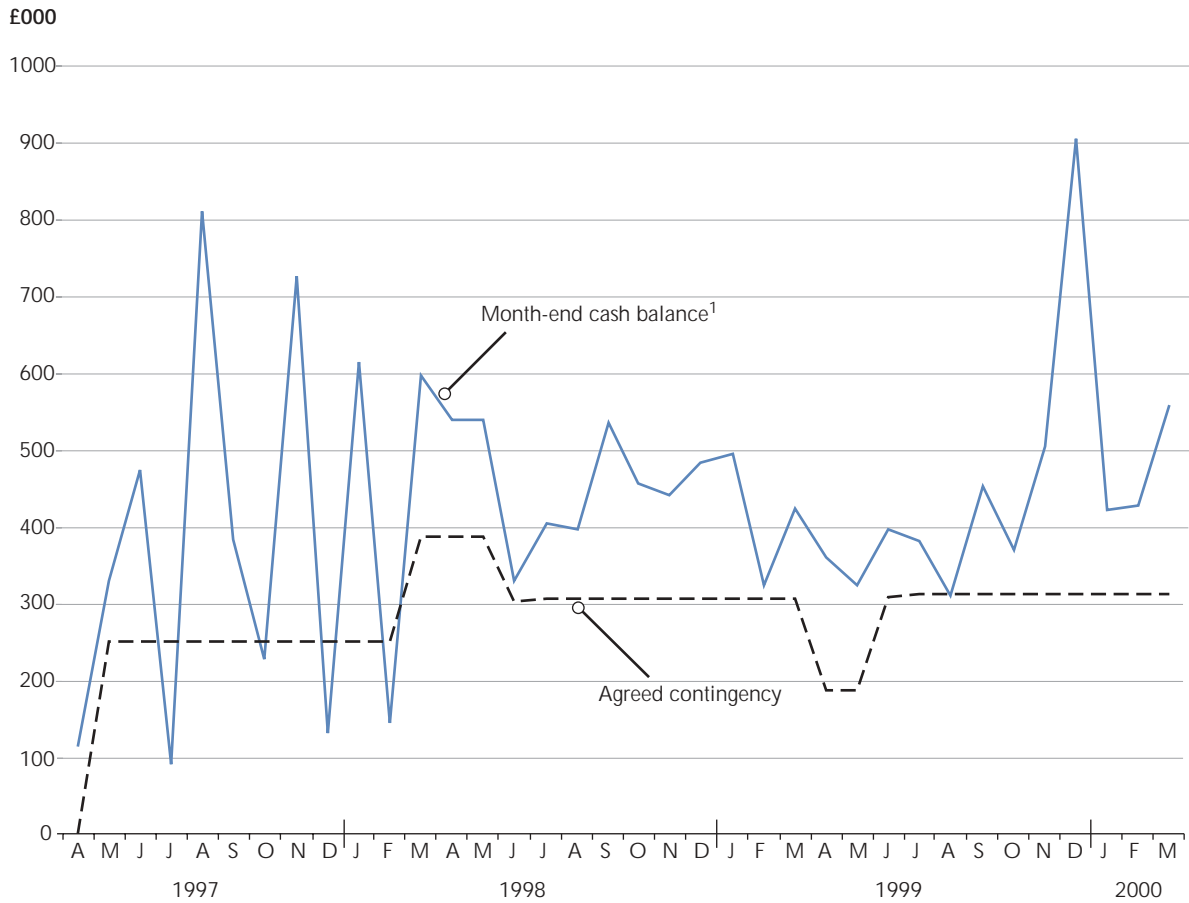
Funding and accounting arrangements for the grant-in-aid

Planning, monitoring and funding

- 3.14 The Household prepares an annual travel budget, prior to the start of the financial year, based on past experience and known and anticipated public engagements in the coming year. This budget is discussed and agreed with the Department, and the annual grant-in-aid is paid to the Household in 12 monthly instalments. Each month, the Household submits a claim form to the Department, shortly before the month end. The Household claims from the Department the difference between its forecast expenditure for the forthcoming month, including an element for contingency, and its estimated cash on hand at the month end. The Department examines the claims and may query any significant variances with the Household before payment is authorised. Since November 1999, the Household has also supplied the Department with a detailed breakdown of its forecast receipts and payments for the coming month.
- 3.15 The Department also receives a copy of the Household's quarterly and annual management accounts, which compare budgeted and actual expenditure to date. The Department told us that it checks that the grant-in-aid it has paid to the Household is correctly recorded in these accounts and although it does not compare the Household's forecast expenditure to the actual expenditure shown in the quarterly management accounts, the Department does monitor spending against budget to see whether any grant not spent can be made available elsewhere within the Department. We compared the Household's forecast expenditure shown on its claim forms for 1999-2000, with its actual expenditure for the year and found that on average the forecasts exceeded the actual outturn by nearly £150,000 a month. Comparison of forecast and actual expenditure would improve the Department's financial monitoring of the grant-in-aid claims. We recommend that in future, the Department should carry out periodic reconciliations between the monthly forecasts and the quarterly management accounts submitted to it by the Household, and seek explanations for unusual or large variations.
- 3.16 The Household's requests for funds include a contingency provision, to cover unexpected payments. We compared the Household's month-end balance with its contingency allowance, to establish the extent to which the contingency provision was reasonable. Our analysis (Figure 14), based on the estimated month-end balances, indicates that the Household's month-end cash balance has only fallen to its contingency level on one occasion since March 1998 and that the Household's cash balance fell below £100,000 on one occasion in the three years since grant funding started. The level of contingency, in 1999-2000 at around £300,000, went up at a time when average monthly expenditure halved, from £1.5 million in 1997-98 to £730,000 in 1999-2000. This level of contingency provision, based broadly on a percentage of the grant-in-aid in the previous year, was excessive. Although the Household's surplus funds are banked and earn good rates of interest, it is a precept of government accounting that such balances can be better used by the Exchequer and should be minimised. Application of the formula in succeeding years has reduced the level of contingency to around £150,000 in 2000-01. The Department should keep the level of contingency under review.

14 Comparison of month-end balances and contingency provisions, from April 1997 to March 2001

Between 1997-98 and 1999-2000 the Household's level of contingency went up and month-end balances increased



- Notes 1 Month-end balances are estimates, based on the data provided by the Household to the Department about a week before the end of each month. These balances comprise grant drawn but not spent, reimbursements and recoveries. The Household does not prepare full bank reconciliations nor strike a cash balance except at the end of each quarter.
- 2 Invoicing delays by a supplier in December 1999 resulted in a larger than anticipated unspent cash balance.

Source: National Audit Office

Appendix 1

Recommendations

- 1 The Department, the Ministry and the Treasury should agree that the Household's use of 32 Squadron be charged at variable rather than full cost, to better represent the cost to the taxpayer and as a basis for deciding between travel options to minimise overall costs to the taxpayer (paragraphs 2.18 and 2.19).
- 2 The Household should test the price competitiveness of its current suppliers of scheduled air flights, for staff journeys, and at least every two years (paragraph 2.26).
- 3 The Department should review and where necessary revise the Financial Memorandum to provide for a consultation procedure (in cases of doubt as to whether travel is covered by the grant-in-aid) and to review the definition of royal travel (paragraph 3.2).
- 4 The Household should obtain and retain facsimile confirmation of the air fares used to calculate reimbursement (paragraph 3.12).
- 5 The Department should carry out periodic reconciliations between the monthly forecasts and the quarterly management accounts submitted to it by the Household, and seek explanations for unusual or large variations (paragraph 3.15).
- 6 The Department should keep the Household's level of contingency under review (paragraph 3.16).

Appendix 2

The 30 journeys we examined

Part 1: Official journeys - in date order

Date	Passengers	Total party size	Mode of travel	Number of options compared	Purpose of travel	Reason for choice of option	Variable cost (£)	Receipts (£)
April 1999	The Queen and the Duke of Edinburgh	38	Charter flight	3	State visit to Republic of Korea	Cost and suitability for long haul flight for 50+ passengers and luggage	242,000 (full cost)	1,613 ¹
May 1999	The Queen, the Duke of Edinburgh and the Prince of Wales	9	Royal train	1	Attend the opening ceremony of the National Assembly for Wales and other engagements	Provides secure travel, office, dining and overnight facilities for two nights	17,630	
May 1999	The Queen and the Duke of Edinburgh	11	BAe146	1	Return from opening ceremony of the National Assembly for Wales and other engagements	Party size and luggage precluded use of smaller aircraft or helicopter	5,910	
July 1999	The Duke of Gloucester	5	BAe125	1	Visit 190 th Anniversary of Battle of Elvina	No commercial service to La Corunna. Official engagement in regimental dress accompanied by two members of the Royal Green Jackets	2,005	
July 1999	The Duke of Edinburgh	3	S76 helicopter	1	Travel from Scotland to three engagements in the North East and return to London	Only practical way to the engagements in the time available	4,060	
July 1999	The Prince of Wales	5	S76 helicopter	1	Four days of engagements in Wales	Alternative was 3 hour car journeys between engagements	5,123	
July & Sept 1999	Staff (The Queen and the Duke of Edinburgh)	2+8	Scheduled flight	4	Two reconnaissance visits in connection with State Visit to South Africa, Ghana and Mozambique	Cheapest option chosen	31,979 (full cost)	
Aug 1999	The Queen	17	BAe146	1	To take up residence at Balmoral	No commercial alternative available. The party size and luggage precluded use of a smaller aircraft or helicopter	5,522	
Aug 1999	Queen Elizabeth The Queen Mother	8	BAe146	1	Travel to Balmoral from the Castle of Mey	The party size, age and luggage precluded the use of a smaller aircraft or helicopter	4,689	
Sept 1999	The Prince of Wales	4	Royal train	3	Travel from Aberdeen to Wattisham with Princes William and Harry to attend launch of 16 Air Assault Brigade, Parachute Regiment and Army Air Corps	Cheaper options were ruled out as these would have breached rules on members of the Royal Family flying together and would have necessitated a very early start	21,441	
Oct 1999	The Princess Royal	3	Charter flight	3	Attend State Funeral of former president Nyerere of Tanzania	Cost and suitability for journey	44,850 (full cost)	3,442

Part 1: Official journeys - in date order - continued

Date	Passengers	Total party size	Mode of travel	Number of options compared	Purpose of travel	Reason for choice of option	Variable cost (£)	Receipts (£)
Oct 1999	The Duke of York	3	BAe125	1	Visit 5 th and 7 th Battalions, Royal Irish Regiment in Northern Ireland	Security considerations	2,139	
Oct 1999	The Princess Royal	3	S76 helicopter	3	Four days of engagements in Scotland	Cheapest option	8,825	
Nov 1999	The Queen and the Duke of Edinburgh	52	Charter flight	1 ²	State visit to Ghana, South Africa and Mozambique	Capacity for 50+ people plus luggage. Two firms approached to tender, one declined for operational reasons	374,700 (full cost)	132 ³
Nov 1999	The Prince of Wales	18	Scheduled flight	4	Visit to United Arab Emirates, Oman and Saudi Arabia	The option chosen offered a shorter journey and fitted the visit schedule better than cheaper options	23,129 (full cost)	
Nov 1999	Staff (The Queen and the Duke of Edinburgh)	23	BAe146	2	Reconnaissance in advance of the Danish Royal Family visit in February 2000	Cheaper than equivalent scheduled flights	3,503	
Nov 1999	The Duke and Duchess of Gloucester	6	Charter S76 helicopter	1	Public engagements in Chesterfield and Ripley	Required a helicopter due to the wide geographical spread of engagements. Household S76 was in use on another engagement	1,938	
Nov 1999	The Prince of Wales	4	Royal train	1	Outward leg of launch of rural revival projects and another official engagement	Overnight travel to Cumbria, prior to carrying out public engagements in Cumbria and Yorkshire the next day using the Household's helicopter	16,729	
Nov-Dec 1999	The Princess Royal	5	Scheduled flight	3	Outward and return legs of visit to Botswana, Malawi and Madagascar	Cost	18,545 (full cost)	
Dec 1999	The Princess Royal	5	Charter flight	3	Various destinations in Botswana, Malawi and Madagascar	Cost and suitability for the engagement	50,025 (full cost)	
Dec 1999	The Duke of York	3	S76 helicopter	2	Attend engagements on Merseyside and in North East	Cheaper alternative was to use a BAe125 but this would have meant lengthy car journeys between engagements	2,965	
Dec 1999	The Princess Margaret	4	S76 helicopter	2	Launch National Society for the Prevention of Cruelty to Children Festival of Christmas Trees	Other engagements	2,604	
Feb 2000	Staff (The Duke of York)	2	Scheduled flight	1	Reconnaissance for visit to the Caribbean	Complex route, only flown by one commercial operator. Discount obtained on ticket price	4,581 (full cost)	

Part 1: Official journeys - in date order - continued

Date	Passengers	Total party size	Mode of travel	Number of options compared	Purpose of travel	Reason for choice of option	Variable cost (£)	Receipts (£)
Feb-Mar 2000	The Prince of Wales	48 ⁴	Charter flight	3	Visit to Trinidad, Tobago, Guyana and Jamaica	Timing, quality and security concerns, coupled with disruption to fellow travellers	252,000 (full cost)	60,000
Mar 2000	The Duke of Edinburgh	8	Scheduled flight	2	Outward leg of visit to Nassau and United States of America and Australia	Cost and programme requirements	13,154 (full cost)	
Mar 2000	The Duke of York	9	BAe146	2	Visit to the United States of America and Overseas Territories of Anguilla, British Virgin Islands, Montserrat and Turks and Caicos Islands	Cost, with part of the positioning costs of the BAe146 before and after the tour met by the RAF as a training exercise	40,350 ⁵	
Mar 2000	The Princess Royal	3	S76 helicopter	1	Travel from Scotland to attend a conference in Harrogate then fly on later to view Flag Officer Training and HMS Cornwall in Plymouth	S76 preferred as there is no airfield at Harrogate and Plymouth was not equipped to handle a BAe125. Operational problems with the S76 meant that a BAe125 and car were used instead for the first leg	5,753	

Part 2: Private journeys - in date order

Date	Passengers	Total party size	Mode of travel	Number of options compared	Purpose of travel	Reason for choice of option	Variable cost (£)	Receipts (£)
May 1999	The Prince of Wales	2	S76 helicopter	1	Private flight	Availability of helicopter	Nil	1,349 ⁶
June 1999	The Earl and Countess of Wessex	3	BAe 125	2	Private flight	Privacy and security concerns	Nil	1,920
Aug 1999	The Queen and the Duke of Edinburgh	5	BAe146	2	Private flight	Luggage capacity	Nil	4,061

- Notes:
- 1 Comprising £468 for the internal flight from Seoul to Yechon from 18 journalists and £1,145 from Invest in Britain for the equivalent single club class fare for one businessman from Seoul to Heathrow.
 - 2 Two firms were invited to quote but one subsequently declined to participate.
 - 3 Two economy fares between Johannesburg and Durban plus airport taxes in respect of private filming by the Household.
 - 4 The party comprised 18 members of the Household and 30 journalists.
 - 5 Excludes the cost of positioning the aircraft on the outward and return journey, which was borne by the Ministry of Defence.
 - 6 Reimbursement of the variable cost of the royal helicopter by the Prince of Wales.