



HM Treasury

Sovereign Grant Act 2011: Report of the Royal Trustees on the Sovereign Grant 2022-23

March 2022

Sovereign Grant Act 2011: Report of the Royal Trustees on the Sovereign Grant 2022-23

Presented to Parliament pursuant to Section 5(4)
of the Sovereign Grant Act 2011



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Chapter 1

Report of the Royal Trustees on the Sovereign Grant 2022-23

Legislative background

Calculation and payment of the Sovereign Grant

- 1.1 Under section 1(1) of the Sovereign Grant Act 2011 (“the 2011 act”) the Treasury is to pay to Her Majesty a Sovereign Grant (“the grant”) for each financial year.¹ The purpose of the grant is to provide resources for use for that year by the Royal Household in support of Her Majesty’s official duties.²
- 1.2 For each financial year, subsequent to the financial year 2012-13, the amount of the grant is the amount determined by the Royal Trustees³ for that year in accordance with section 6 of the 2011 act.⁴ Section 6 of the 2011 act as amended by the Sovereign Grant Act 2011 (Change of Percentage) Order 2017,⁵ provides that the amount of the grant for a financial year (“the relevant financial year”) is to be determined by the Royal Trustees as follows.

Step 1

Calculate 25% of the income account net surplus of The Crown Estate⁶ for the base year.⁷

Step 2

Round the amount calculated under Step 1 up to the nearest £100,000.

¹ Financial year for these purposes means a year beginning with 1 April (see section 13(3) of the 2011 act).

² Section 1(2) of the 2011 act. In the 2011 act any reference to the support of Her Majesty’s official duties includes the maintenance of Royal Palaces and related land (see section 13(8) of the 2011 act).

³ The Royal Trustees are the body established by section 10 of the Civil List Act 1952 (see section 13(7) of the 2011 act). They are the Prime Minister (as the First Commissioner of Her Majesty’s Treasury), the Chancellor of the Exchequer and the Keeper of the Privy Purse.

⁴ Section 1(4) of the 2011 act.

⁵ SI 2017/438. This SI amended the percentage specified in step 1 of section 6(1) of the 2011 act from 15% to 25%.

⁶ The income account net surplus of The Crown Estate for a financial year is the amount of that surplus as stated in the statement of accounts certified by the Comptroller and Auditor General under section 2 of The Crown Estate Act 1961 (see section 12(1) of the 2011 act).

⁷ The base year means the financial year that begins two years before the beginning of the relevant financial year (see step 1 in section 6 of the 2011 act).

Step 3

Find the greater of—

- (a) the amount determined under Step 2, and
- (b) the amount of the Sovereign Grant for the financial year that immediately precedes the relevant financial year

That amount is “the Step 3 amount”.

Step 4

If the adjusted value of the Reserve Fund⁸ at the end of the base year⁹ exceeds 50% of the audited net relevant resources used for that year,¹⁰ the Royal Trustees may reduce the Step 3 amount by such amount as they consider appropriate.

Step 5

The amount of the Sovereign Grant for the relevant financial year is—

- (a) the Step 3 amount, or
- (b) if Step 4 applies, the Step 3 amount as reduced by the reduction (if any) made under Step 4

1.3 In exercising their powers under Step 4, the Royal Trustees must act in a way they expect will result in the adjusted value of the Reserve Fund at the end of the relevant financial year being about 50% of the audited net relevant resources used for that year.¹¹

Report of the Royal Trustees

1.4 Each financial year the Royal Trustees must prepare a report stating their determination of the grant for the following year and how that amount has been determined.¹² The report must be prepared as soon as practicable after the Comptroller and Auditor General has reported on:

- the statement of accounts of the Royal Household for the previous financial year

⁸ The Reserve Fund was established under section 3 of the 2011 act. Grant not used for the year for which it is made is paid into the Reserve Fund. In years when the use of resources exceeds the amount of the grant, drawings from the Reserve Fund will supplement the grant (see generally section 3(3) and (4) of the 2011 act).

⁹ The adjusted value of the Reserve Fund at the end of the base year is the value of the Reserve Fund as stated in the statement of accounts for the base year as certified by the Comptroller and Auditor General under section 4 of the 2011 act but adjusted to take account of any payments to and from the Fund in respect of the base year which are not reflected in that statement of accounts (see sections 6(2) and (3) and 12(1) of the 2011 act).

¹⁰ The audited net relevant resources used for a financial year are the amount of net relevant resources used for that year as stated in the statement of accounts certified by the Comptroller under section 2 of the 2011 act (see section 12(1) of the 2011 act). For these purposes, net relevant resources for a financial year are the amount of resources used by the Royal Household for that year in support of Her Majesty's official duties less the amount of income of the Royal Household for that year (excluding the grant) (see section 2(7) of the 2011 act).

¹¹ Section 6(4) of the 2011 act.

¹² Section 5(1) of the 2011 act.

- the statement of accounts of the Reserve Fund for that financial year
- the statement of accounts for that year prepared by The Crown Estate Commissioners¹³

1.5 The Royal Trustees must give a copy of this report to the Treasury and the Treasury must lay the report before Parliament.¹⁴

The report

1.6 This report is made by the Royal Trustees under section 5(1) of the 2011 act.

1.7 This report states the determination of the Royal Trustees of the amount of the Sovereign Grant for the financial year 2022-23. It also states how that amount has been determined.

Sovereign Grant for the financial year 2022-23

1.8 The amount of the Sovereign Grant for the financial year 2022-23 is £86,300,000.

1.9 A statement of how that amount has been determined by the Royal Trustees is included in Annexes A and B to this report.

1.10 Annex C contains information about the ongoing review by the Royal Trustees under section 7 of the 2011 act.

The Rt Hon. Boris Johnson, MP

The Rt Hon. Rishi Sunak, MP

Sir Michael Stevens

March 2022

¹³ Section 5(2) of the 2011 act.

¹⁴ Section 5(3) and (4) of the 2011 act.

Annex A

Statement of how the Sovereign Grant for 2022-23 has been calculated

A.1 The Sovereign Grant for 2022-23 has been determined in accordance with section 6 of the 2011 act as follows.

Step 1

The income account net surplus of The Crown Estate for 2020-21 was £269,300,000.¹

25% of £269,300,000 is 67,325,000.

Step 2

£67,325,000 rounded up to the nearest £100,000 is £67,400,000.

Step 3

The grant amount for the financial year 2021-22 was £86,300,000.

The greater of £67,400,000 and £86,300,000 is £86,300,000.

The Step 3 amount is, therefore, £86,300,000.

Step 4

The adjusted value of the Reserve Fund at the end of the financial year 2020-21 was £45,400,000.²

The audited net relevant resources used for the financial year 2020-21 were £87,500,000.³

50% of £87,500,000 is £43,750,000.

¹ See page 88 of '[The Crown Estate Integrated Annual Report and Accounts 2020/21](#)'

The entry 'consolidated revenue account profit' in the Consolidated Revenue Account is the income account net surplus of The Crown Estate for 2020/21.

² See page 70 of '[The Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2020/21](#)'. This also includes the Non-Current Assets Reserve which is accounted for separately from the Sovereign Grant Reserve Fund.

No payments to and from the Reserve Fund in respect of the financial year 2020/21 have been made which are not reflected in the Annual Report and Accounts.

³ See page 66 of '[The Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2020/21](#)'.

The entry audited net relevant resources is the Total Net Expenditure in the Statement of Income and Expenditure of The Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2020/21.

Step 4 applies for the financial year 2022-23, since the adjusted value of the Reserve Fund at the end of 2020-21 exceeded 50% of the audited net relevant resources used for that year.

The Royal Trustees therefore have power to reduce the Step 3 amount (£86,300,000). In exercising this power, the Royal Trustees must act in a way they expect will result in the adjusted value of the Reserve Fund at the end of the financial year 2022-23 being about 50% of the audited net relevant resources used for that year.⁴

As detailed in Annex B, the Royal Trustees have concluded that the value of the Reserve Fund at the end of the financial year 2022-23 is likely to be below 50% of the audited net relevant resources used for that year. As a result, the Royal Trustees have decided it would not be appropriate to reduce the Step 3 amount.

Step 5

The grant for the financial year 2022-23 is the Step 3 amount, that is £86,300,000.

⁴ Section 6(4) of the 2011 act.

Annex B

Royal Trustees' consideration of Step 4

Background

- B.1 Because Step 4 applies for 2022-23, the Royal Trustees have the power to reduce the Step 3 amount. In exercising this power, the Royal Trustees must act in a way that they expect will result in the adjusted value of the Reserve Fund at the end of 2022-23 being about 50% of the audited net relevant resources used for that year.
- B.2 For 2022-23, the Step 3 amount is based on the grant paid in 2021-22 (see Step 3 in Annex A above).
- B.3 The percentage used for calculating the Sovereign Grant is reviewed every five years. The first review took place in 2016 and assessed whether the 15% proportion value was appropriate. The Royal Trustees recommended an increase in the percentage to 25% from 2017-18.
- B.4 The next review is ongoing and is expected to conclude in time for any changes to come into effect from April 2023. Further details are provided at Annex C.
- B.5 2017-18 was the first year that the amount of Sovereign Grant was calculated by reference to 25% rather than 15% of the income net surplus of The Crown Estate for the base year. The reason for this change was to pay for an urgent 10-year overhaul of Buckingham Palace ('the reservicing programme'), due to the serious risk of fire and flood.¹
- B.6 As detailed in previous Royal Trustee Reports, in the initial phase of reservicing, expenditure fell short of expectations, leading to the Reserve being higher than anticipated.
- B.7 A forecast increase in expenditure for the reservicing programme was noted in the report of the Royal Trustees on the Sovereign Grant 2021-22, with a corresponding expectation that the value of the Reserve Fund at the end of 2020-21 would be significantly less than 50% of the audited net relevant resources used for that year.²

¹ See the 'Sovereign Grant Act 2011: Report of the Royal Trustees on the Sovereign Grant Review 2016' (November 2016). Paragraph 7.4 of that report recommended that the relevant percentage be increased from 15% to 25%. SI 2017/438 implemented that change.

². See Section B.21 of the 'Sovereign Grant Act 2011: [report of the Royal Trustees on the Sovereign Grant 2021-22](#)'.

- B.8** While expenditure on the reservicing programme did increase by £15.2 million in 2020-21, overall expenditure in that year was lower than the forecast of £89.6 million noted in the 2020-21 report.³
- B.9** As a result, and after accounting for capital expenditure, the Reserve Fund at the end of 2020-21 stood at £45.4 million⁴ which was 52% of the audited net resources used for that year.

Consideration – forecast of the position at the end of 2022-23

- B.10** In deciding whether to reduce the Step 3 amount, the Royal Trustees have, in particular, considered the Royal Household's forecast of their likely expenditure in 2021-22 and 2022-23 and the Royal Household's forecast of the adjusted value of the Reserve Fund at the end of 2022-23.
- B.11** The Sovereign Grant for 2021-22 is £86.3 million. The Royal Household forecasts that it will spend £120.4 million in 2021-22 which includes, with the permission of the Royal Trustees, drawing £22.3 million from the Reserve Fund in order to do so.
- B.12** A further £5.3 million will be drawn from the Reserve Fund reflecting expenditure on capital items. Therefore, at the end of 2021-22, the Royal Household has forecast that the Reserve Fund will stand at £20 million.
- B.13** Forecast expenditure for 2022-23 is driven by a significant increase in reservicing activity, as work has now commenced across a much wider area of the Palace. Correspondingly, the value of the Reserve Fund is also forecast to decrease.
- B.14** The Royal Household forecasts that it will spend £110.1 million in 2022-23. If the Sovereign Grant for that year is the Step 3 amount of £86.3 million, the Royal Household will, with the permission of the Royal Trustees, draw £14 million from the Reserve Fund in order to fund its current expenditure and draw a further £5.4 million from it in respect of capital expenditure. The Royal Household, therefore, forecasts that the adjusted value of the Reserve Fund will fall to £5.3 million by the end of 2022-23 if the Sovereign Grant for that year is the Step 3 amount.
- B.15** Consequently, if the Step 3 amount is paid for 2022-23, based on the Royal Household's forecasts, the adjusted value of the Reserve Fund at the end of that year would be about 4.8% of the audited net relevant resources used for that year.

Consideration – confidence in the forecasts

- B.16** The Royal Trustees note that actual expenditure in 2020-21 was slightly below the available Sovereign Grant. As a result, the Reserve Fund at the end

³ See Section B.13 of the 'Sovereign Grant Act 2011: [report of the Royal Trustees on the Sovereign Grant 2021-22](#)'

⁴ See page 71 of ['The Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2020-21'](#)

of 2020-21 stood at more than 50% of the audited net relevant resources used for that year. However, reservicing has accelerated further during 2021-22 and as a result, the Reserve is expected to reduce to around £20m by the end of 2021-22 and to be drawn down further in 2022-23.

- B.17** Given the Reserve Fund did not fall below 50% of the audited net relevant resources at the end of 2020-21 as had been forecast, the Royal Trustees have reviewed the latest in-year expenditure figures for 2021-22 to determine the extent to which the latest forecasts for the Reserve fund can be relied upon.
- B.18** These show that the Sovereign Grant for 2021-22 has already been exhausted and the Reserve fund is being accessed as anticipated, giving a very high level of confidence that the Reserve Fund will indeed be significantly below 50% of the audited net relevant resources at the end of 2021-22. This information, combined with expectations for expenditure in 2022-23, give a high degree of confidence that the Reserve will remain significantly below 50% of the audited net relevant resources at the end of 2022-23 without adjustment to the level of the Sovereign Grant.
- B.19** The Trustees are also assured that, despite the disruption caused by the COVID-19 pandemic, the overall programme to reservice Buckingham Palace remains on track to be delivered both on time and to budget. The programme includes robust governance arrangements, including oversight through both the Sovereign Grant Audit and Risk Assurance Committee and the independent Reservicing Programme Challenge Board

Conclusion

- B.20** The Royal Trustees are pleased that reservicing has accelerated further during 2021-22 and as a result, the Reserve is expected to reduce to around £20 million by the end of 2021-22 and to be drawn down further in 2022-23. Having considered all the factors, the Royal Trustees have concluded that the most reasonable expectation is that the adjusted value of the Reserve Fund at the end of 2022-23 will be less than 50% of the audited net relevant resources used for that year. They have therefore concluded that no reduction to the Step 3 amount should be made.

Annex C

Review by the Royal Trustees under section 7 of the Sovereign Grant Act 2011

- C.1 In line with the requirements in section 7 of the 2011 act, a review has now commenced to consider whether the percentage currently specified in Step 1 of section 6(1) of the act is appropriate.
- C.2 However, at the current time there is a high degree of uncertainty about the future path of The Crown Estate's income net surplus, reflecting the timing of additional revenues from offshore wind developments.
- C.3 Following the bidding process for the latest Offshore Wind Leasing Round (Round 4) at the start of 2021, The Crown Estate is expecting to receive option fees for these projects while in development of several hundred million pounds each year. This will feed through to a large increase in The Crown Estate's income net surplus which will be a relevant consideration for the review.
- C.4 The timing of The Crown Estate starting to get the income from these option fees is dependent upon the completion of the current environmental assessment (the 'Habitats Regulations Assessment', or HRA). This assessment is currently expected to conclude during 2022 and in time for any changes to the percentage in the 2011 act to come into effect from April 2023.
- C.5 The review is therefore expected to conclude once the outcome of the HRA process is known. The Royal Trustees will be kept informed of the progress of the HRA process.

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