



HM Government

Sovereign Grant Act 2011: report of the Royal Trustees on the Sovereign Grant 2019-20

October 2018



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

October 2018



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Chapter 1

Report of the Royal Trustees on the Sovereign Grant 2019-20

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.

Step 3

Find the greater of—

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).

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

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.

¹³ Section 5(2) of the 2011 act.

- 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 2019-20. It also states how that amount has been determined.

Sovereign Grant for the financial year 2019-20

- 1.8 The amount of the Sovereign Grant for the financial year 2019-20 is £82,400,000.
- 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.

The Rt Hon. Theresa May, MP

The Rt Hon. Philip Hammond, MP

Sir Michael Stevens

29 October 2018

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

Annex A

Statement of how the Sovereign Grant for 2019-20 has been calculated

A.1 The Sovereign Grant for 2019-20 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 2017-18 was £329,400,000.¹

25% of £329,400,000 is £82,350,000.

Step 2

£82,350,000 rounded up to the nearest £100,000 is £82,400,000.

Step 3

The grant amount for the financial year 2018-19 was £82,200,000.

The greater of £82,200,000 and £82,400,000 is £82,400,000.

The Step 3 amount is, therefore, £82,400,000.

Step 4

The adjusted value of the Reserve Fund at the end of the financial year 2017-18 was £33,500,000.²

The audited net relevant resources used for the financial year 2017-18 were £47,400,000.³

50% of £47,400,000 is £23,700,000.

¹ See page 80 of 'The Crown Estate Integrated Annual Report and Accounts 2017-18'

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/719587/The_Crown_Estate_Integrated_Annual_Report_2018.pdf

The entry 'net consolidated revenue account profit – distributable to the Consolidated Fund' in the Consolidated Revenue Account is the income account net surplus of The Crown Estate for 2017-18.

² See page 57 of the 'Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2017-18'.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/719582/SovereignGrant2017-18_

No payments to and from the Reserve Fund in respect of the financial year 2017-18 have been made which are not reflected in the Annual Report and Accounts.

³ See page 53 of the 'Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2017-18'.

Step 4 applies for the financial year 2019-20, since the adjusted value of the Reserve Fund at the end of 2017-18 exceeded 50% of the audited net relevant resources used for that year.

The Royal Trustees therefore have power to reduce the Step 3 amount (£82,400,000). 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 2019-20 being about 50% of the audited net relevant resources used for that year⁴.

For the reasons given in Annex B, the Royal Trustees have decided not to reduce the Step 3 amount. The Royal Trustees have taken this decision because they expect that the value of the Reserve Fund at the end of the financial year 2019-20 will be below 50% of the audited net relevant resources used for that year.

Step 5

The grant for the financial year 2019-20 is the Step 3 amount, or £82,400,000.

⁴ Section 6(4) of the 2011 act.

Annex B

Royal Trustees' consideration of Step 4

Background

- B.1 Because Step 4 applies for 2019-20, the Royal Trustees have 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 2019-20 being about 50% of the audited net relevant resources used for that year.
- B.2 For 2019-2020, the Step 3 amount is calculated by reference to 25% of the income net surplus of the Crown Estate for the base year; that is, the financial year two years before 2019-20, or 2017-18.
- B.3 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, due to serious risk of fire and flood.⁵
- B.4 In this first year when the increased relevant percentage applied, the Royal Household's expenditure was less than the Sovereign Grant paid for that year, so as a consequence a large amount was paid into the Reserve Fund at the end of 2017-18. The Reserve Fund at the end of 2017-18 stood at £33.5 million. It is for these reasons that Step 4 applies for 2019-20.

Consideration – forecast of the position at the end of 2019-20

- B.5 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 2018-19 and 2019-20 and the Royal Household's forecast of the adjusted value of the Reserve Fund at the end of 2019-20.
- B.6 Forecast expenditure for 2018-19 and 2019-20 is substantially higher than actual expenditure in earlier financial years. The value of the Reserve Fund is also forecast to decrease in those years. Paragraphs B.7 and B.8 set out the Royal Household's forecasts for both these years.
- B.7 The Sovereign Grant for 2018-19 is £82.2 million. The Royal Household forecasts that it will spend £87.5 million in 2018-19 drawing £5.4 million from the Reserve Fund in order to do so. At the end of 2018-19, the Royal Household has forecast that the Reserve Fund will stand at £28.2 million.

⁵ 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.

- B.8** The Royal Household forecasts that it will spend £88.9 million in 2019-20. If the Sovereign Grant for that year is the Step 3 amount of £82.4 million, the Royal Household will draw £6.5 million from the Reserve Fund in order to fund its expenditure. The Royal Household, therefore, forecasts that the adjusted value of Reserve Fund will fall to £21.7 million by the end of 2019-20 if the Sovereign Grant for that year is the Step 3 amount.
- B.9** Consequently, if the Step 3 amount is paid for 2019-20, based on the Royal Household's forecasts the adjusted value of the Reserve Fund at the end of that year would be about 24% of the audited net relevant resources used for that year.

Consideration – confidence in the forecasts

- B.10** The Royal Trustees acknowledge that there was a variance between the available Sovereign Grant and actual expenditure in 2017-18, which has resulted in the Reserve Fund at the end of 2017-18 standing at more than 50% of the audited net relevant resources used for that year.
- B.11** The Royal Trustees are however persuaded that as 2017-18 was the first year of the 10-year programme to overhaul Buckingham Palace, it is reasonable to assume – as is common with projects of this type - that spending would be low in the first year as the Royal Household focused on the set up of the programme including for example, setting up the Programme Management Office, recruiting key personnel, carrying out detailed building surveys and planning for high priority works, and that expenditure will increase in future years. For example, by 31 March 2018 the Royal Household had already entered into contractual commitments of £15.4 million.
- B.12** As mentioned above, based on the Royal Household's forecasts, the adjusted value of Reserve Fund at the end of 2019-20 will be at about 24% of the audited net relevant resources used for that year. That forecast is below the 50% level mentioned in section 6(4) of the 2011 act.
- B.13** Even if the Royal Household's forecasts prove to be incorrect, there is a substantial margin for error (of about £15 million) before the 50% level mentioned in section 6(4) of the 2011 act would be approached.

Conclusion

- B.14** As the Royal Trustees expect the adjusted value of the Reserve Fund at the end of 2019-20 to be less than 50% of the audited net relevant resources used for that year, they have concluded that no reduction to the Step 3 amount should be made.

HM Treasury contacts

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If you require this information in an alternative format or have
general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk