



HM Government

Sovereign Grant Act 2011:
Report of the Royal
Trustees on the Sovereign
Grant Review 2016

November 2016



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November 2016

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1 Introduction

1.1 Since 1760, when George III agreed to surrender the net income of the Crown Estate to the Exchequer in return for a fixed annual payment, the government has provided financial support to the Sovereign.

1.2 Historically, this support was provided in 4 parts: the Civil List, which was provided to meet the official expenses of the Royal Household, and separate Grants-in-Aid to meet the cost of Royal Travel, Royal Communications and Information and the Maintenance of the Occupied Royal Palaces in England and Wales.¹

1.3 Since 2012-13, this support has been consolidated into the Sovereign Grant, which was established through the Sovereign Grant Act 2011.

1.4 This report sets out the conclusions of the review that the Royal Trustees have undertaken to determine whether the current level of the Sovereign Grant remains appropriate.

¹ The Occupied Royal Palaces are Buckingham Palace, St James's Palace, Clarence House, Marlborough House Mews, the residential and office areas of Kensington Palace, the Royal Mews and Royal Paddocks at Hampton Court, Windsor Castle and buildings in the Home Park at Windsor.

2 Sovereign Grant Act 2011

2.1 The Sovereign Grant Act 2011 (the act) was introduced to consolidate the financial support provided to the Queen and introduce new arrangements to strengthen the accountability and scrutiny of the Royal Household's spending on the Queen's official duties.

2.2 From 1 April 2012 the separate elements of financial support were consolidated into the Sovereign Grant (the grant) and the Civil List Reserve was transferred to the Sovereign Grant Reserve (the reserve). The act also introduced new oversight and accountability arrangements which meant that, for the first time, the Royal Household's support of Her Majesty's official duties were subject to the same audit scrutiny as other government expenditure. The Comptroller and Auditor General became the statutory auditor of the grant and the reserve accounts which are laid before Parliament. The Committee of Public Accounts (PAC) has also been able to examine the grant accounts and consider the full level of support to the Royal Household whereas previously it could only examine aspects of the Royal Finances through its scrutiny of the Grants-in-Aid.

2.3 Previously, aspects of the Royal Household's funding were overseen by HM Treasury (the Treasury), the Department for Culture, Media and Sport and the Department for Transport. The act has simplified these arrangements and the Treasury is now responsible for monitoring the application of the grant in accordance with the Framework Agreement between the Treasury and the Royal Household, Managing Public Money and other guidance that may be notified to the Royal Household by the Treasury.

2.4 The act set the initial grant for 2012-13 at £31 million. For subsequent years the level of the grant has been based on a proportion of The Crown Estate's net income, which initially has been set at '15% of the net income of The Crown Estate in the year two years prior to the funding year'.

2.5 The purpose of the grant is to provide resources for use by the Royal Household in support of Her Majesty's official duties as Sovereign. These include:

- the maintenance of Royal residences known as the Occupied Royal Palaces, which are used for formal entertaining and ceremonial events
- Royal travel for official engagements in the UK and overseas undertaken by the Queen and Other Members of the Royal Family acting on Her behalf
- employment costs for Royal Household staff who support the work of Her Majesty as Head of State

2.6 The grant delivered important changes in the financial management of the Royal Household over the previous funding arrangements by:

- providing greater certainty over future funding levels and facilitating planning over the longer-term
 - the funding formula keeps the grant in line with the income growth achieved by The Crown Estate, and guarantees a minimum level of annual funding. This certainty helps facilitate the Royal Household's longer-term planning, particularly around its property maintenance programme
- consolidating the financial support and increasing flexibility in the use of resources

- before the grant was introduced, the separate funding regimes of the Civil List and the Grants-in-Aid required the Royal Household to manage separately its spending in support of the Queen in her official duties, Royal Travel and the maintenance of the Occupied Royal Palaces. The new arrangements allow the Royal Household to allocate spending in the way that it considers best achieves its objectives
- including safeguards to control the size of the grant and the reserve. The Royal Trustees (the Trustees being the Prime Minister, the Chancellor of the Exchequer and the Keeper of the Privy Purse) are responsible for the following:
 - the management of the Reserve Fund, by overseeing the draw-down of funds from the Reserve Fund where annual Royal Household expenditure is likely to exceed the grant in any financial year
 - ensuring that the Reserve Fund does not exceed approximately half of the grant for any year, by specifying a lower grant amount and thereby necessitating a draw-down from the Reserve Fund
 - the grant calculation formula, by considering the percentage used in the funding formula at set intervals

2.7 At the end of a review period, the act requires the Trustees to review the grant calculation formula by considering whether the percentage currently used to calculate the value of the grant remains appropriate. The review periods are:

- the period of 4 years beginning with 1 April 2012
- every period of 5 years beginning at the end of another review period

2.8 If the Royal Trustees conclude that the percentage should be changed, the act requires the Treasury to lay an order (statutory instrument) to amend the percentage.

3 Sovereign Grant Review 2016

3.1 The Trustees have undertaken their first review of the grant calculation formula. This report explains how they have determined what percentage should now apply.

3.2 In coming to their conclusions, the Royal Trustees have taken account of the following factors:

- how the grant has been managed over 4 years (2012-13 to 2015-16), including an assessment of the Royal Household's income and expenditure
- expected costs over the next 5 year review period (2016-17 to 2020-21), including planned maintenance work on the Occupied Royal Palaces to address the current backlog in maintenance
- substantial works required to 'reservice' Buckingham Palace to ensure that the Palace continues to be able to support the Sovereign in the performance of Her official duties

3.3 These factors are assessed in detail in the following chapters.

Review of the financial management of the

4 Sovereign Grant 2012-2016

4.1 The Royal Household has an established framework for financial planning and budgeting which closely aligns medium-term operating plans and annual budgets with the Royal Household's objectives.

4.2 The Programme of official engagements for the Queen and Other Members of the Royal Family drives the Royal Household's planning and budgeting, which spans a three-year period. The Royal Household reviews and updates the Three Year Plan (the plan) annually alongside the annual grant budget (the budget).

4.3 The budget-setting process begins with the preparation of departmental business plans, which set out the priorities of individual branches within the Royal Household, and how this will contribute to the Royal Household's overall objectives. The plan and the budget set the framework for in-year monitoring of finances and performance on a monthly basis. In addition, a three and 10 year property maintenance plan is maintained to identify major forthcoming projects and milestones, allowing appropriate forecasting and prioritisation of expenditure on property maintenance across the Occupied Royal Palaces.

4.4 Expenditure compared to the approved budget is monitored on a monthly basis through the production of detailed management accounts. These are reviewed and approved by both the Sovereign Grant Planning Committee and the Lord Chamberlain's Committee. A copy of the management accounts is also sent to the Treasury for review and are discussed at the bi-monthly meetings between the Treasury and the Royal Household.

4.5 Property maintenance expenditure through the Annual Works Programme is separately reviewed at project level on a monthly basis by the Director of Property and individual property managers. A rolling forecast which is updated monthly is then used to monitor the expected outturn for the year.

4.6 A summary of Sovereign Grant income and expenditure 2012-16 is at Annex A.

4.7 Income from other sources to supplement the Sovereign Grant has increased by 20% since 2012-13, from £11.6 million to £13.9 million in 2015-16. A key factor in this increase is a rise in Facilities Management Charge to The Royal Collection Trust, which is largely due to annual inflationary increases and an increase in visitor numbers at Windsor Castle.

4.8 Property rental income has two key elements, rental income from properties occupied by staff or rented commercially and income from special events. Rental income from properties occupied by staff or rented commercially has risen by £ 0.3 million (13%) from £2.4 million in 2012-13 to £2.7 million in 2015-16.

4.9 Income from special events over the 4 years to 2015-16 is, by its nature, variable. In 2012-13, the year of the Diamond Jubilee and the London Olympics, there were three events at the Occupied Royal Palaces with a total income of £0.5 million. This contrasts with the one event in 2015-16 producing income of £0.2 million.

4.10 Recharges and Other Income include recharges for functions at Buckingham Palace, Windsor Castle and St James's Palace, IT and telecommunications and property maintenance. This has increased by £1.0 million (20%) since 2012-13. The increase is mainly due to higher income from functions and additional property maintenance projects rechargeable to The Royal Collection Trust.

4.11 Salaries expenditure has increased by £ 1.2 million over the 4 years to 2015-16. After excluding increases in headcount due to access control¹ functions taken on by the Royal Household which were previously funded by the Home Office, and additional resources to deliver the increase in property maintenance projects, this represents an increase of 0.3% in real terms.

4.12 Other staff costs have increased by £0.2 million (17%) over the 4 years to 2015-16. The increase is mainly due to additional agency staff costs relating to cover for access control staff vacancies in 2015-16 and additional recruitment costs relating to access control staff and the increase in property maintenance resources.

4.13 Travel costs have reduced by £0.5 million (11%) since 2012-13 mainly due to fewer journeys by small fixed wing aircraft, based on the Queen's Programme and the programmes of Other Members of the Royal Family. The programme of overseas visits which is funded by the grant is determined by the Foreign and Commonwealth Office, and approved by the Royal Visits Committee² according to agreed priorities.

4.14 Property maintenance expenditure has increased by £7.2 million (79%) from £9.1 million in 2012-13 to £16.3 million. At the PAC hearing on 14 October 2013, the Royal Household stated its intention to allocate at least 50% of the increase in grant funding in 2013-14, and in future years, to address its property maintenance backlog. Since the introduction of the grant in 2012-13, 67% of the increase in the annual grant has been allocated to property maintenance and major projects (80% including capital expenditure).

4.15 On 1 April 2012 the remaining Civil List Reserve balance of £3.3 million was transferred to the reserve. In the first year of the grant a further £2.3 million was drawn-down leaving the Reserve Fund balance at £1 million. In 2013, the PAC recommended that the Royal Household should rebuild a sufficient level of contingency in its Reserve Fund to cover unforeseen demands on The Queen's Programme.

4.16 The Royal Household, in agreement with the Treasury, established a target to maintain the reserve at around 5% of the annual grant. The reserve is £3.9 million (9.7% of the grant) at 31 March 2016.

¹ Access Control is responsible for administering staff and visitors to the Royal Mews, St James's Palace and Kensington Palace.

² The Royal Visits Committee is a Cabinet Office Committee, chaired by the Permanent Under Secretary of the Foreign and Commonwealth Office.

Expected costs for the next

5 5 year period 2016-2021

5.1 The Royal Household has undertaken a review of the services in Buckingham Palace, which has revealed the need for significant expenditure to modernise them, and this project is explained in detail in Chapter 6. Outside of the programme for the reservicing of Buckingham Palace and property maintenance across the whole Estate, the majority of expenditure over the next 5 years is expected to remain fairly stable. Staff and payroll costs will increase in line with contractual pay arrangements.

5.2 The main area for increased expenditure will continue to be property maintenance. In 2013, the PAC advised that the Royal Household should make swift progress on updating its property maintenance plan, which should include an estimate of the cost of repairs needed to bring the Estate back to target condition, and a clear prioritisation of the work required.

5.3 The majority of the Royal Household Estate is made up of ageing iconic Grade 1 listed buildings and/or Scheduled Ancient Monuments. Changes in the condition of the Estate are monitored through regular Condition Assessment surveys with the whole Estate surveyed on a continuous basis over two years. Since the introduction of the grant, the Royal Household has committed to allocate at least 50% of the annual increase in the grant to property maintenance in order to reduce the backlog in essential maintenance. Despite this commitment being met, the latest Condition Assessment survey of the Occupied Royal Palaces Estate highlighted that 45% of the Estate was below target condition, which is an increase of 6% since the last survey at 31 March 2012 (39%).

5.4 By 31 March 2016, the Royal Household had completed its property maintenance 10 year plan and established its priorities for investment. The principles and methodology underlying the preparation of the 10 year plan have been subject to independent checks by property specialists and benchmarked against the methods adopted by other heritage estates.

5.5 In developing the property maintenance 10 year plan the programme of works have been prioritised between cyclical maintenance (works that should be undertaken at regular intervals in order to comply with statutory requirements e.g. fixed wiring and portable appliance testing), keeping the Estate in steady state (e.g. 5 yearly painting of external woodwork), and projects. The projects in the property maintenance 10 year plan are prioritised initially according to condition and then according to various sub categories which include: immediate life safety hazards, statutory compliance, external works to occupied buildings, internal works to occupied buildings, to maintain or increase commercial income.

5.6 The works needed for the reservicing of Buckingham Palace have been considered as a separate, discrete element of the property maintenance 10 year plan due to the programme scope being substantially different to the other priorities for property maintenance investment in the period 2016-21. The property maintenance 10 year plan does however include projects such as the replacement of the Picture Gallery rooflight and repairs to stonework at Buckingham Palace which are priorities in terms of condition and could best be undertaken whilst the reservicing works are in progress.

5.7 The Property team's resources have increased since 2012-13 to meet the increasing investment in property maintenance, including the recruitment of a dedicated post to take

responsibility for actively running the Property Annual Works Programme, the three and 10 year property maintenance plans, and the detailed planning work for the longer term.

5.8 Expenditure on property maintenance (excluding the reservicing of Buckingham Palace) is expected to increase by 47% from £16.3 million (2015-16) to £24.0 million (2020-21). The principal projects which have been identified as priorities during the next 10 year period include the replacement of the water mains infrastructure at Windsor Castle, repairs to crumbling stonework at Buckingham Palace and a continuation of lead and slate roof repairs across the Estate. By increasing the current level of investment in property maintenance, in addition to undertaking the reservicing of Buckingham Palace, it is anticipated that by the end of the current 10 year plan, the decline in the proportion of the Estate below target condition will have been reversed. The target for the following 10 year plan (years 10 to 20) is that the percentage of the Estate below target condition will have reduced from 45% to 25-30%.

Buckingham Palace

6 reservicing

Overview

6.1 Buckingham Palace is one of the United Kingdom's most prestigious buildings. It is instantly recognisable across the world as one of the most iconic working palaces and as the home of the Queen.

6.2 It is a working building, where the Sovereign carries out her official, ceremonial, diplomatic and representational duties as Head of State and Head of the Commonwealth. It employs over 300 staff in office accommodation and hosts over 90,000 people each year, who attend a range of events and functions from small lunches to large receptions. This includes 6 garden parties which are held each summer at the Palace and are attended by approximately 40,000 members of the public. Over 30 investitures are also held each year at the Palace, with each one being attended by approximately 300 people including those receiving honours and their families.

6.3 Over 500,000 people visit the Palace during its summer opening, and millions of UK and overseas tourists visit the gates of Buckingham Palace to witness the Changing of the Guard throughout the year.

6.4 In addition, the Queen grants an audience to the Prime Minister each week when both are in London, and to the Chancellor of the Exchequer before the presentation of the Budget. Members of the Privy Council, Foreign and British Ambassadors, High Commissioners, Bishops, senior officers of the Armed Forces and senior civil servants are also regularly received by the Queen at the Palace.

6.5 However, as elements of the Palace's plumbing, electrical cabling and heating have not been updated since shortly after the Second World War, the building's infrastructure is now in urgent need of a major overhaul to avoid the very real danger of catastrophic failure leading to fire or flood. This would result in incalculable damage to the building and/or priceless works of art in the Royal Collection.

6.6 Through the grant, the Royal Household is required 'to maintain the Occupied Royal Palaces as buildings of State, to a standard consistent with the Royal Household's operational requirements, and with the royal, architectural and historic status of the buildings in a manner which ensures value for money.'¹

6.7 A series of detailed technical assessments have been undertaken to examine the material state of Buckingham Palace, including the electrical cabling, power generation, heating systems and pipework, hot and cold water pipework and data systems (fire alarms, telephones and IT). These assessments established that elements of the Palace's essential services are significantly beyond their maximum useful life and require urgent replacement.

6.8 In order to address this urgent need, a number of options to replace the services throughout the Palace have been considered by the Programme Board² (The board). The board has

¹ Framework agreement between HM Treasury and the Royal Household

² The Programme Board is chaired by the Master of the Household as SRO. Other members of the Board include the Deputy Treasurer to The Queen (representing the Accounting Officer), the Director of Property, Financial Director of The Royal Collection Trust, and representatives from HM Treasury, Cabinet Office's Infrastructure and Projects Authority, Westminster City Council, Heritage Architects and the Palace of Westminster's Restoration and Renewal Programme.

recommended to the Lord Chamberlain's Committee (LCC) that the most cost-effective way to replace the services, and ensure that the Palace is fit for purpose for the next 50 years and the next three generations of the Monarchy, would be to undertake a phased programme of works, over 10 years starting in April 2017.

6.9 The phased reservicing programme of essential maintenance works should be sequenced wing-by-wing so as to enable the Palace to remain occupied and fully operational, and allow The Queen's Programme to continue to be delivered without interruption. Significant national events, such as the Changing of the Guard, the State Opening of Parliament, the Trooping of the Colour, Investitures, garden parties and the opening of the Palace to visitors from all over the world during the summer months will also continue throughout the reservicing period.

6.10 In addition to replacing the essential services, the reservicing programme includes a plan to deliver tangible benefits and efficiencies. The operational effectiveness of the Palace will be increased by making the building more energy efficient and cost-effective. There will be a significant increase in the number of people visiting the Palace, with increased access for schools and the opportunity to focus on the history of the Monarchy and British citizenship. It will also offer an opportunity for a new generation of construction professionals to work on a historic building through apprenticeships and graduate programmes.

The condition of the Palace and reservicing requirement

6.11 The technical assessments established that there are a series of very old (over 60 years), fragile systems with a high risk of failure which need to be replaced as a matter of urgency over the next two years (2017-19). These include Vulcanised India Rubber electrical cabling, electrical panels, distribution boards, generators, boilers, drainage pipework and data systems.

6.12 Not carrying out these works would come with significant risks, including:

- **fire.** A significant proportion of the wiring within the Palace is in a high risk category and needs immediate attention to reduce the very real risk of fire and failure. Some of the electrical (wired) systems are over 60 years old
- **declining resilience and operational failure.** The majority of the Mechanical & Electrical (M&E) services and systems are over 40 years old (some are over 60 years old) and are degrading, thereby creating a number of significant risks for the Palace. Total failure is an ever-increasing risk
- **degrading occupational environment.** The Palace's boilers are over 33 years old, and spare parts for them are difficult to source. This will continue to compromise the ability to provide acceptable living conditions, maintain the desired temperatures to preserve the works of art in the Royal Collection which are on display within the Palace, to provide compliant office working conditions for Royal Household employees and achieve energy efficiency
- **damage to building fabric.** The Palace's above ground drainage system consists of a mixture of lead and cast iron pipework. Failures due to sagging have been identified in the lead drainage pipework and joints. The potential for damage to the building fabric is high, particularly in areas where the lead pipework is buried in walls and floors

6.13 The technical assessments noted that, whilst some systems require high priority immediate repair, others need wholesale replacement within the next 10 to 15 years in order to avoid the real risk of significant service failure, fire, flood, health and safety incidents, damage to the fabric of the Palace and/or the potential loss or damage to the works of art in the Royal Collection. The Palace's occupation by the Queen, the members of the Royal Family, and Household

employees could be significantly disrupted, as could the Queen's Programme. In addition, there could be substantial financial loss in terms of building damage (estimated at £250 million for a single wing). Catastrophic impacts have been experienced in the past following fires at other heritage buildings, including Uppark in West Sussex, Clondon Park near Guildford, Windsor Castle and Hampton Court Palace.

Proposed options for reservicing

6.14 A wide range of options were examined in developing the Strategic Outline Business Case (SOC) for HM Treasury with the estimated capital costs ranging from £313 million to £390 million.

6.15 Two options that were considered but rejected included the Full Decant option and the Full Occupation option.

6.16 The Full Decant option would involve completing the works over 6 and a half years and having to relocate, store and safeguard the extensive collection of works of art in the Royal Collection, as well as relocating the Queen, the Duke of Edinburgh and the other members of the Royal Family, and all the Royal Household employees. It would be the most disruptive option with the greatest negative impact on delivering the Queen's Programme, and result in a significant loss of income during the programme.

6.17 The Full Occupation option would involve completing the works over 21 years, whilst the Palace remained fully occupied and the works were conducted in a piecemeal fashion. It would involve significant risk of material and systems failure and fire due to the length of the programme, and the increased complexity of adding new systems to an old infrastructure.

6.18 The two options which were selected for further consideration at the Outline Business Case (OBC) stage were:

- **partial occupation with operational refit.** This included a phased but continuous programme over 8 years involving the relocation of 150 Royal Household staff into temporary accommodation. The Operational Refit element included a package of improvements and repairs that provide significant qualitative and financial benefits after the completion of the works
- **significant occupation with operational refit.** This included a phased programme of works over 13 years which required fewer staff to be relocated to temporary accommodation (100), but with an increased risk of failure as a consequence of the longer programme

6.19 In developing the OBC, the Royal Household examined the preferred options above in terms of timelines, procurement approach, operational impact and the timing of when benefits will be released. The result of this analysis has been the development of a hybrid '10 Year Phased Refit option'.

6.20 The 10 year phased refit option has an estimated capital cost £369 million (£222 million net present cost after benefits over 50 years). The costs are spread over 10 years and the programme allows the reservicing to take place whilst the Palace remains fully operational, occupied by the Queen, members of the Royal Family and the majority of the Royal Household employees. The Queen's Programme can also continue without interruption, and there is the flexibility to react to any significant unplanned circumstances. This option:

- **allows for significantly lower risks of operational failure** by allowing for works to be completed in advance of critical end of life forecasts (10-15 years) thereby reducing the risk of potentially 'catastrophic end of life failure'

- **provides value-for-money** generated through the delivery and release of benefits. These include significant financial and operational benefits, which will enable
 - more efficient operations
 - enhanced public access, and improved condition of the Palace
 - financial savings
- **minimises the impact on day-to-day operations** of the Palace, thereby enabling the Queen to remain in residence throughout the works and allowing normal public access, including the Buckingham Palace Summer Opening
- **significantly enhances public access** to Buckingham Palace with an increase in paying visitors of 22%, whilst also delivering up to 110 additional events per year
- **achieves the sustainability objectives** of the programme including an estimated 30% CO₂ efficiency saving from the High Priority works (a saving of 410 carbon tons) with the reservicing works likely to release a further 10% saving (totalling 554 carbon tons overall)

The Plan – a 10 year phased refit programme

6.21 The 10 year phased refit programme will take an incremental approach in the replacement of services, completing one wing at a time, awarding contracts separately for each phase, and minimising the financial and practical risks. It will also offer significant opportunities to capitalise on income generation, benefits and efficiencies to offset the capital costs, and increase public access.

6.22 The programme will start formally in April 2017, subject to the approval of funding, and continue for 10 years completing in 2027. The High Priority works will take two years, from April 2017 to April 2019. These works will focus on replacing key services in the basement (electrical and heating generation and distribution). The detailed design work for the whole programme will run in parallel with the High Priority works over the next two years.

6.23 Following the design work, the programme will start in earnest in April 2019 and commence with the East Wing, rotating clockwise around the Palace to the South, South West and North Wings. The West Wing and State Apartments will be progressed incrementally throughout the 10 years of the programme (two to three State Rooms at a time), so as to enable the Palace to open to over 500,000 visitors over the summer months as usual.

6.24 The programme includes a series of financial, material, commercial and public access benefits. The principal financial benefits are delivered through savings on utilities, commercial rent from office accommodation at St. James's Palace, delivering more chargeable events at Buckingham Palace and enhanced Facilities Management Charges from a longer summer opening and additional private tours. The cumulative total of financial benefits each year on completion of the programme is estimated at £3.4 million.

6.25 In addition, the reservicing works are essential in maintaining the effective operation of the Palace, and will have significant direct and indirect social and economic benefits to the nation, including the following:

- **reducing the very real risk of significant operational failure in the short term**, and the potential risk of catastrophic fire or flood damaging the Palace, stopping the Royal Household's operations and damaging the Royal Collection
- **protecting and preserving one of the most iconic heritage buildings in the world** for future generations, as well as enhancing and increasing public access to the Palace

- **continuing to provide an appropriate venue for hosting visiting Heads of State** and upholding the United Kingdom's status in the world
- **substantially improving the operational efficiency of the Palace**, thereby enabling better use of the Palace and delivering almost 9% efficiencies, in terms of cost savings and income generation, on the 2016-17 operating budget (excluding property maintenance spend)
- **significantly improving the energy efficiency** of the Palace by over 40% thereby saving 554 tons of carbon per annum
- **maintaining the positive impact of tourism in London** through the Palace remaining as the occupied residence of the Queen throughout the period of the programme

6.26 The preferred option also maximises the benefits of improving the operational performance of the Palace through undertaking works which include:

- **enhancing space utilisation** by reconfiguring areas in Buckingham Palace to provide additional office accommodation and improved meeting facilities
- **additional public access and events** by creating a dedicated visitor admissions and learning facility to extend opening periods, modifying the service lifts to improve access for events, and greatly improving access and facilities for disabled visitors
- **improving the working environment** for staff by relocating offices to rooms with natural daylight

6.27 On completion of the Phased Refit, the Palace will be able to accommodate an additional 115,000 (22% increase) paying visitors and an additional 30,000 school children / students (an increase from the current 1,500) through a new visitor admissions and learning facility.

Funding and Risk

6.28 The capital requirement for the programme in the 10 years to 2026-27 is £369 million including VAT.

6.29 The Royal Household has considered its ability to fund this programme through the existing grant at the current 15% of Crown Estate revenues from two years previously. However, the operational budget to support the Queen's Programme and the commitments on the property maintenance budget during the period 2016-21 indicate that additional funding of £369 million over 10 years will be required to fund the programme from April 2017.

6.30 Risks to the programme will be managed and minimised. The Palace will be occupied throughout the programme, and the Royal Household's operations will continue with as little disruption as possible. The programme will be delivered by the Royal Household through a dedicated Project Management Office (PMO). Management of the risk will not be transferred to a separate delivery authority, and specifically will remain with the Senior Responsible Owner and the Accounting Officer, both of whom will be accountable to HM Treasury and Parliament. The SRO and the Accounting Officer, as members of the Lord Chamberlain's Committee, will provide regular reports on the programme's progress and the impact on the Royal Household's operations.

6.31 In addition to the maintenance and continual monitoring of a comprehensive risk register, programme risks will be mitigated through the PMO's careful management of the procurement and construction process, and the programme being delivered sequentially in phases. The

phased approach also provides the flexibility required to adapt the programme as a consequence of any significant unplanned circumstances.

6.32 A series of formal Gateway Reviews and Checkpoint audits by independent consultants will also take place at key points throughout the programme starting in spring 2018.

6.33 HM Treasury will be engaged throughout the project, and will attend meetings of the Sovereign Grant Audit Committee and Programme Scrutiny Board. The SRO and Accounting Officer will also maintain close contact with the Palace of Westminster's restoration and renewal programme. There will be close monitoring of the project throughout, and the SRO and Accounting Officer will ensure that appropriate action can be taken early should the programme have to be changed as a result of any unexpected strategic circumstances or changes in market conditions.

7 Conclusions of the Sovereign Grant Review

7.1 The evidence presented in this report shows that the Sovereign Grant has successfully delivered the resources that the Royal Household need in order to support the Queen's Programme since 2012-13.

7.2 On the basis of the forward 10 year plan for the property maintenance programme, and the expected level of staff costs and travel requirements for the next 5 years, the current percentage level of 15% of the Crown Estate's profits would be sufficient.

7.3 However, the case for carrying out the reservicing works on Buckingham Palace is compelling, and it is clear that these essential works cannot be delivered within a 15% envelope without causing detriment to the other areas of spend that the Sovereign Grant is designed to support.

7.4 The Royal Trustees have therefore concluded that the percentage used to calculate the Sovereign Grant should be increased temporarily to 25% and expect this to be reduced once the reservicing works are completed.

7.5 The increase in resources is only required temporarily, for the duration of the works themselves. But the Sovereign Grant Act 2011 currently prevents the level of the grant itself being reduced from one year to the next. This would mean that once the works have been completed, the Royal Household would receive more resources than needed to deliver the Queen's Programme.

7.6 The amount of Sovereign Grant will be reconsidered at future reviews, in accordance with the act. It is the intention of the government to bring forward legislation to reset the level of the Sovereign Grant to appropriate levels (15% of the Crown Estate revenues) once the reservicing works have been completed, which is expected to be in 2026-27.

The Rt Hon. Theresa May

The Rt Hon. Philip Hammond

Sir Alan Reid

November 2016

Summary of Sovereign Grant income and expenditure 2012-2016

A

Table A.1: Summary of Sovereign Grant income and expenditure 2012-16 (£ million)

	2012-13	2013-14	2014-15	2015-16
Funding received:				
Sovereign Grant	31.0	36.1	37.9	40.1
Sovereign Grant Reserve	2.3	(0.4)	(2.2)	(0.3)
Total Funding	33.3	35.7	35.7	39.8
Income				
Property Rental Income	3.0	3.2	2.8	2.9
Facilities Management Charge	3.7	4.4	4.5	5.1
Recharges & Other Income	4.9	5.8	6.0	5.9
Total Income	11.6	13.4	13.3	13.9
Expenditure				
Payroll Costs	(18.3)	(18.2)	(18.7)	(19.5)
Other Staff Costs	(1.2)	(1.3)	(1.2)	(1.4)
Property Maintenance	(9.1)	(13.3)	(11.7)	(16.3)
Housekeeping and Hospitality	(1.9)	(2.0)	(2.1)	(2.1)
Utilities	(3.1)	(3.3)	(3.4)	(3.3)
Travel	(4.5)	(4.2)	(5.1)	(4.0)
Other	(6.8)	(6.8)	(6.8)	(7.1)
Total Costs	(44.9)	(49.1)	(49.0)	(53.7)
Net Expenditure	(33.3)	(35.7)	(35.7)	(39.8)
(Shortfall) / Excess of Funding	-	-	-	-

Source: The Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2012-13 to 2015-16

HM Treasury contacts

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