



HM Government

# Sovereign Grant Act 2011: report of the Royal Trustees on the Sovereign Grant 2020-21

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November 2019





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## report of the Royal Trustees on the Sovereign Grant 2020-21

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of the Sovereign Grant Act 2011

November 2019



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# Contents

Chapter 1	Report of the Royal Trustees on the Sovereign Grant 2020-21	2
Annex A	Statement of how the Sovereign Grant for 2020-21 has been calculated	5
Annex B	Royal Trustees' consideration of Step 4	7

# Chapter 1

## Report of the Royal Trustees on the Sovereign Grant 2020-21

### 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.<sup>1</sup> 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.<sup>2</sup>
- 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 Trustees<sup>3</sup> for that year in accordance with section 6 of the 2011 act.<sup>4</sup> Section 6 of the 2011 act as amended by the Sovereign Grant Act 2011 (Change of Percentage) Order 2017,<sup>5</sup> 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 Estate<sup>6</sup> for the base year.<sup>7</sup>

#### Step 2

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

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

<sup>2</sup> 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).

<sup>3</sup> 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.

<sup>4</sup> Section 1(4) of the 2011 act.

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

<sup>6</sup> 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).

<sup>7</sup> 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 Fund<sup>8</sup> at the end of the base year<sup>9</sup> exceeds 50% of the audited net relevant resources used for that year,<sup>10</sup> 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.<sup>11</sup>

## 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.<sup>12</sup> 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

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<sup>8</sup> 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).

<sup>9</sup> 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).

<sup>10</sup> 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).

<sup>11</sup> Section 6(4) of the 2011 act.

<sup>12</sup> 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 Commissioners<sup>13</sup>

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

## **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 2020-21. It also states how that amount has been determined.

## **Sovereign Grant for the financial year 2020-21**

1.8 The amount of the Sovereign Grant for the financial year 2020-21 is £85,900,000.

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. Boris Johnson, MP

The Rt Hon. Sajid Javid, MP

Sir Michael Stevens

November 2019

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<sup>13</sup> Section 5(2) of the 2011 act.

<sup>14</sup> Section 5(3) and (4) of the 2011 act.



# Annex A

## Statement of how the Sovereign Grant for 2020-21 has been calculated

A.1 The Sovereign Grant for 2020-21 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 2018-19 was £343,500,000.<sup>1</sup>

25% of £343,500,000 is £85,875,000.

### Step 2

£85,875,000 rounded up to the nearest £100,000 is £85,900,000.

### Step 3

The grant amount for the financial year 2019-20 was £82,400,000.

The greater of £82,400,000 and £85,900,000 is £85,900,000.

The Step 3 amount is, therefore, £85,900,000.

### Step 4

The adjusted value of the Reserve Fund at the end of the financial year 2018-19 was £44,400,000.<sup>2</sup>

The audited net relevant resources used for the financial year 2018-19 were £67,000,000.<sup>3</sup>

50% of £67,000,000 is £33,500,000.

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<sup>1</sup> See page 84 of 'The Crown Estate Integrated Annual Report and Accounts 2018/19'

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 2018-19.

<sup>2</sup> See page 61 of 'The Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2018-19'. 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 2018-19 have been made which are not reflected in the Annual Report and Accounts.

<sup>3</sup> See page 57 of 'The Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2018-19'.

Step 4 applies for the financial year 2020-21, since the adjusted value of the Reserve Fund at the end of 2018-19 exceeded 50% of the audited net relevant resources used for that year.

The Royal Trustees therefore have power to reduce the Step 3 amount (£85,900,000). 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 2020-21 being about 50% of the audited net relevant resources used for that year.<sup>4</sup>

As detailed in Annex B, the Royal Trustees have concluded that the value of the Reserve Fund at the end of the financial year 2020-21 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 2020-21 is the Step 3 amount, that is £85,900,000.

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<sup>4</sup> Section 6(4) of the 2011 act.

# Annex B

## Royal Trustees' consideration of Step 4

### Background

- B.1** Because Step 4 applies for 2020-21, 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 2020-21 being about 50% of the audited net relevant resources used for that year.
- B.2** For 2020-21, 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 2020-21, which is 2018-19.
- 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 ('the reservicing programme'), due to the serious risk of fire and flood.<sup>1</sup>
- B.4** In the first year when the increased relevant percentage applied, the Royal Household's expenditure was significantly lower than the Sovereign Grant paid for that year. Therefore, the Reserve Fund at the end of 2017-18 stood at £33.5 million. As set out in the document 'Sovereign Grant Act 2011: report of the Royal Trustees on the Sovereign Grant 2019-20'<sup>2</sup> ('the 2019-20 report'), spending on the reservicing programme was low in the first year of that programme as the Royal Household focused on the set up of the programme.<sup>3</sup>
- B.5** An increase in expenditure for the reservicing programme was forecast, with a corresponding expectation that the value of the Reserve Fund at the end of 2018-19 would be significantly less than 50% of the audited net relevant resources used for that year.<sup>4</sup>

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<sup>1</sup> 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.

<sup>2</sup> See 'Sovereign Grant Act 2011: report of the Royal Trustees on the Sovereign Grant 2019-20'.

<sup>3</sup> See Section B.11 of the 'Sovereign Grant Act 2011: report of the Royal Trustees on the Sovereign Grant 2019-20'.

<sup>4</sup> See Section B.9 of the 'Sovereign Grant Act 2011: report of the Royal Trustees on the Sovereign Grant 2019-20'.

- B.6** While expenditure on the reservicing programme did increase in 2018-19, overall expenditure in that year was lower than the forecast noted in the 2019-20 report.<sup>5</sup> There were two reasons for this variation.
- The forecast assumes that the contingency provision included within the reservicing programme budget would be spent at a constant rate across the lifetime of the reservicing programme. In the event, little expenditure of the contingency provision was needed during 2018-19.<sup>6</sup>
  - Variance in forecast expenditure, mainly on the reservicing programme, with some High Priority Works expenditure not taking place in 2018-19 as had been expected and being rephased to 2019-20.
- B.7** As a result, and after accounting for capital expenditure, the Reserve Fund at the end of 2018-19 stood at £44.4 million.<sup>7</sup> As this represents more than 50% of the audited net relevant resources used for that year, Step 4 applies for 2020-21.

## **Consideration – forecast of the position at the end of 2020-21**

- B.8** 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 2019-20 and 2020-21 and the Royal Household's forecast of the adjusted value of the Reserve Fund at the end of 2020-21.
- B.9** Forecast expenditure for 2019-20 and 2020-21 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.11 and B.12 set out the Royal Household's forecasts for both these years.
- B.10** The Sovereign Grant for 2019-20 is £82.4 million. The Royal Household forecasts that it will spend £83.6 million in 2019-20, drawing £1.2 million from the Reserve Fund in order to do so.
- B.11** A further £3.6 million will be drawn from the Reserve Fund reflecting expenditure on capital items. Therefore, at the end of 2019-20, the Royal Household has forecast that the Reserve Fund will stand at £39.6million.
- B.12** The Royal Household forecasts that it will spend £99.9 million in 2020-21. If the Sovereign Grant for that year is the Step 3 amount of £85.9 million, the Royal Household will draw £14.1 million from the Reserve Fund in order to fund its current expenditure and draw a further £100,000 from it in respect of capital expenditure. The Royal Household, therefore, forecasts that the

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<sup>5</sup> See Section B.6 of the 'Sovereign Grant Act 2011: report of the Royal Trustees on the Sovereign Grant 2019-20'.

<sup>6</sup> In line with the 'Green Book', the Reservicing Programme includes an annual contingency provision – this is an allowance made for the cost of known risk and any unforeseen outcomes.

<sup>7</sup> See page 61 of 'The Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2018-19'. This sets out in more detail the treatment of capital assets in the Sovereign Grant accounts, accounted for through the Non-Current Assets Reserve which is separate from the Sovereign Grant Reserve.

adjusted value of the Reserve Fund will fall to £25.5 million by the end of 2020-21 if the Sovereign Grant for that year is the Step 3 amount.

- B.13** Consequently, if the Step 3 amount is paid for 2020-21, based on the Royal Household's forecasts, the adjusted value of the Reserve Fund at the end of that year would be about 26% of the audited net relevant resources used for that year.

## **Consideration – confidence in the forecasts**

- B.14** The Royal Trustees note that, contrary to the Royal Household's forecasts as set out in the 2019-20 report, actual expenditure in 2018-19 was below the available Sovereign Grant. As a result, the Reserve Fund at the end of 2018-19 stands at more than 50% of the audited net relevant resources used for that year.
- B.15** The explanation for the lower than forecast expenditure in 2018-19 is set out in paragraph [B.6]. 2018-19 was the second year of a ten-year programme to overhaul Buckingham Palace. The Royal Trustees recognise the inherent difficulties with accurately forecasting the timing of expenditure and the utilisation of the contingency provision across the life of such a major, multi-year programme, and are of the view that some of those costs will now fall later in the lifespan of the project, as is common in major works of this type. The overall cost of the reservicing programme remains unchanged.
- B.16** There is already evidence that expenditure will increase significantly from the 2018-19 level. For example, authorised or contracted commitments for the reservicing programme total £85 million at 31 March 2019 which will be met in part from the Reserve Fund.
- B.17** As mentioned above, based on the Royal Household's forecasts, the adjusted value of the Reserve Fund at the end of 2020-21 is expected to be about 26% 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.18** Even if the Royal Household's forecasts prove to be incorrect, there is a substantial margin of error (of £16 million) before the 50% level mentioned in Section 6(4) of the 2011 act would be approached in 2020-21. The Royal Trustees note that despite the increase in expenditure forecast for 2019-20 the Sovereign Grant Reserve is likely to be close to the 50% level by the end of 2019-20.
- B.19** As the reservicing programme progresses, if the contingency provision is not fully utilised and actual expenditure continues below forecast, causing the Reserve Fund to persist above 50% of the audited net relevant resources, downward adjustments to the level of the Sovereign Grant can be considered as part of future annual reviews by the Royal Trustees.
- B.20** The Trustees are also assured that the overall project to reservice Buckingham Palace remains on track to be delivered both on time and to budget. The project 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.21 The Royal Trustees recognise difficulties in forecasting the exact timing of expenditure on the reservicing programme to date and not utilising the contingency provision have contributed to the level of the Sovereign Grant Reserve not falling as quickly as had been previously anticipated. However, 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 2020-21 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.



## **HM Treasury contacts**

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