



HM Treasury

Sovereign Grant Act 2011:
**Report of the Royal Trustees
on the Sovereign Grant Review
2023**

July 2023

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July 2023



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Chapter 1

Summary and Conclusions

Purpose of the review

- 1.1 The Sovereign Grant Act 2011 (the Act) introduced new arrangements to consolidate the financial support provided to the Monarch, through the payment of an annual Sovereign Grant.
- 1.2 As part of their duties under Section 7 of the Act, 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 grant calculation formula, by considering at set intervals whether the percentage used in that formula remains appropriate.
- 1.3 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.
- 1.4 This report sets out the conclusions and details of the Trustees' second review.

Conclusions

- 1.5 The Royal Trustees have concluded that the percentage used to calculate the Sovereign Grant should be decreased from 25% to 12%.
- 1.6 In coming to their conclusions, the Royal Trustees have taken account of the following.
 - How the Grant has been utilised since the start of the second review period in 2016-17, including an assessment of the Royal Household's income and expenditure. 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 Monarch's Programme and progress the Buckingham Palace Reservicing Programme since 2016-17.
 - Expected costs over the period 2023-24 to 2026-27, including planned maintenance work on the Occupied Royal Palaces to address the current backlog in maintenance and the completion of the works required to 'reservice' Buckingham Palace.
 - Factors likely to influence both the Net Revenue Profit of The Crown Estate used in the calculation of the Sovereign Grant and the income supplementing the Sovereign Grant to 2026-27. The Crown Estate's net revenue profits used in the grant calculation formula over the next period will be significantly impacted by substantial additional income from Offshore Wind option fees.

1.7 These factors are assessed in detail in the following chapters. The final chapter then sets out how the revised percentage is likely to impact on the profile of the annual Sovereign Grant amount over the next review period.

1.8 The amount of Sovereign Grant will be reconsidered at future reviews, in accordance with the Act. It remains the intention of the government to bring forward legislation to reset the level of the Sovereign Grant once the reservicing works to Buckingham Palace have been completed, which is expected to be in 2026-27.

The Rt Hon. Rishi Sunak MP

The Rt Hon. Jeremy Hunt MP

Sir Michael Stevens

July 2023

Chapter 2

Introduction

Sovereign Grant Act 2011

2.1 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.

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

2.3 The Act was introduced to consolidate the financial support provided to the Monarch and introduce new arrangements to strengthen the accountability and scrutiny of the Royal Household's spending on the Monarch's official duties.

2.4 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 late 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.

2.5 The purpose of the Grant is to provide resources for use by the Royal Household in support of His 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 King and Other Members of the Royal Family acting on His behalf
- employment costs for Royal Household staff who support the work of His Majesty as Head of State.

2.6 The Grant has the following features:

- The grant calculation 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.
- The consolidated financial support allows flexibility in the use of resources, allowing the Royal Household to allocate spending in the way that it considers best achieves its objectives.
- It includes 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 is not kept at an excessive level, by enabling a lower Grant amount if the Reserve Fund grows above 50% of net expenditure
 - 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.

2.9 This review commenced following the end of financial year 2020-21. Following the resolution of the issues relating to The Crown Estate's net revenue profits (detailed in chapter 6), the Trustees have now concluded their review.

Chapter 3

Review of financial management of the Sovereign Grant 2016 to 2023 – core activities

Financial Management Framework

3.1 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.

3.2 The Programme of official engagements for The Monarch 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).

3.3 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 ten 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.

3.4 Expenditure compared to the approved budget is monitored on a monthly basis through the production of detailed management accounts, which include regular re-forecasts of income and expenditure. The management accounts are reviewed by both the Operations Committee and the Lord Chamberlain's Committee. A copy of the management accounts is also sent to the Treasury and is discussed at the bi-monthly meetings between the Treasury and the Royal Household.

3.5 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.

Review of expenditure and income

3.6 Income supplementing the Sovereign Grant rose from £14.9 million in 2016-17 to £20.1 million in 2019-20. This then fell back significantly in 2020-21 to £9.4 million, largely due to the impact of the Covid-19 pandemic reducing the facilities management charges payable from The Royal Collection Trust to £3.8 million due to reduced visitor numbers. This £3.8 million, plus £0.2 million in respect of March 2020 and £0.2 million in respect of April-May 2021, was waived by The Royal Household, in order to support The Royal Collection Trust's survival and subsequent recovery, and thereby protect the income stream supplementing the Sovereign Grant over the longer term. This matched the amount that The Royal Collection Trust was eligible for, but did not claim, from the Coronavirus Job Retention Scheme.

3.7 Income supplementing the Sovereign Grant remained just below £10 million in each of 2021-22 and 2022-23, largely reflecting the ongoing impacts of Covid-19. In addition, the facilities management charges received in 2022-23 were less than budgeted as the Buckingham Palace Summer Opening was shortened due to the death of Her late Majesty.

3.8 Rental income from properties occupied by staff and rented commercially has remained above £3 million across this period. Having been £3.1 million in 2016-17, it had reached £3.6 million in 2022-23.

3.9 The Royal Collection Trust pays **facilities management charges** for the use of Buckingham Palace and Windsor Castle for the paid admission of the public. The charges are based on formulae agreed between the Keeper of the Privy Purse on behalf of the Royal Household and the Trustees of The Royal Collection Trust.

3.10 In normal circumstances the charges for 2020-21 would have continued this trajectory over the previous four years. However, the opening of both Buckingham Palace and Windsor Castle for paid public admission was severely curtailed by the Covid-19 pandemic, and as a result the facilities management charge reduced to nil in that year. In addition, a credit of £0.2 million was issued to The Royal Collection Trust in that year in respect of the previous year's charges resulting in an overall negative charge of £0.2 million. The facilities management charge in 2021-22 and 2022-23 was £0.4 million and £0.5 million respectively, reflecting the ongoing impact of Covid-19.

3.11 Recharges and other income mainly comprised recharges for functions at Buckingham Palace, Windsor Castle and St James's Palace, services shared between Households, and The Royal Collection Trust, particularly Digital Services and Property Annual Works Programme recharges. The annual figures varied across the period to 2020-23, reflecting specific activities. The two main features to note are as follows:

- In 2017-18, The Royal Collection Trust funded the construction of the Frogmore Conservation workshop in the Home Park, Windsor. The proportion of the cost attributable to Sovereign Grant-funded activities was capitalised, resulting in £3.4 million equivalent income being transferred to the non-current assets reserve.
- Due to the impacts of Covid-19, recharges and other income fell back to £6.2 million in 2020-21 (from £9.6 million in 2019-20), as property projects planned by The Royal Collection Trust were deferred, and events such as garden parties were cancelled (with a corresponding fall in the related expenditure). However, other income benefitted from the receipt of the lump sum of £2.4 million from the Duke and Duchess of Sussex relating to Sovereign Grant expenditure on the refurbishment of Frogmore Cottage.

3.12 Payroll costs rose from £20.3 million in 2016-17 to £23.0 million in 2019-20 - a 13.3% increase in nominal terms, though this represents a 1.2% decrease in real terms. Headcount increased between 2016-17 and 2019-20 to reflect specific areas of risk, namely digital services/cyber security, fire safety and property maintenance.

3.13 Payroll costs then fell back to £22.4 million in 2020-21. This reflected a reduction in headcount in response to the financial impact of Covid-19, with numbers reducing across most departments as vacancies were not filled, and a Household wide pay freeze for staff earning more than £24,000. Payroll costs increased in 2022-23 as the pay freeze ended and the Household was able to start filling some of the vacancies it had been carrying. During 2022-23, headcount levels returned in line with pre-Covid-19 levels in 2019-20 as activities also increased.

3.14 Other staff costs increased from 2016-17 until 2019-20 and was related to agency and recruitment costs. These costs fell back to £1.1 million in 2020-21, reflecting a fall in recruitment costs, staff travel, staff training, and uniforms in response to the financial impact of Covid-19.

3.15 Travel costs were broadly flat between 2016-17 and 2018-19. These increased to £5.3 million in 2019-20 following the expiry of a ten-year lease for one of the helicopters and the termination of an annual lease on the other helicopter. These were replaced by a five-year lease for one of the helicopters and the acquisition of an eleven-year-old helicopter, alongside an associated increase in maintenance costs. Travel costs then fell sharply in 2020-21 reflecting significantly reduced travel due to the impact of Covid-19, and returned to pre-Covid levels from 2021-22 as Covid-19 restrictions reduced.

3.16 Property maintenance expenditure was significantly higher in each year from 2016-17 to 2020-21 than in the previous review period (2012-13 to 2015-16). This reflected increased investment and the expansion of property maintenance across the Occupied Royal Palaces to address the longstanding property maintenance backlog. This was in

line with the expectations of the Trustees' 2016 review, and followed the 2013 recommendation by the Public Accounts Committee that the Household should make swift progress on updating its property maintenance plan.

3.17 Property maintenance costs of £23.7 million in 2018-19 included thirteen projects with a cost of over £350,000 in the year including works on Frogmore Cottage, Victoria & Albert Mausoleum, West Range Roof (Buckingham Palace Mews) and cyclical external decoration works in London and Windsor. Expenditure fell back to £17.9 million in 2020-21 in line with available funding due to the impacts of Covid-19 on income supplementing the Sovereign Grant (set out at paragraphs 3.6 to 3.11). Due to the ongoing financial impacts of Covid-19, core property maintenance expenditure (excluding capital expenditure) reduced further in both 2021-22 and 2022-23, to £16.1 million and £14.8 million respectively.

3.18 In 2013, the Household committed to Parliament to allocate at least 50% of the annual increase in the grant (on a cumulative basis) to property maintenance. Not including the reservicing of Buckingham Palace (covered separately below), by 2022-23, 53% of the cumulative increase in the annual Grant had been allocated to property maintenance.

3.19 The Royal Household, in agreement with the Treasury, has a target to maintain the **Sovereign Grant Reserve** (excluding the Reserve for Buckingham Palace reservicing) at around 5% of the annual Grant. This followed the Public Accounts Committee recommendation in its 2014 report that the Royal Household should ensure a sufficient level of contingency to cover unforeseen demands on The Monarch's Programme. The value of the core Reserve as a percentage of the annual core Grant was 21% at 31 March 2023.

3.20 Movements in the value of the Sovereign Grant Reserve reflect capital expenditure, which does not flow through the Income and Expenditure account but creates an asset on the Statement of Financial Position. The value of additions to capital is transferred from the Sovereign Grant Reserve to a non-current assets reserve to recognise the use of the Grant in purchasing/creating the assets.

3.21 Depreciation over the life of the assets is funded from the capital reserve, thereby ensuring the Grant is only used once – at the point of purchase. The value of the annual depreciation charge is transferred from the non-current assets reserve to the Sovereign Grant reserve to fund the depreciation that has been charged in year to the Income and Expenditure account.

3.22 A summary of Sovereign Grant income and expenditure in relation to core activities for 2016 to 2023 is at Annex A.

Chapter 4

Review of financial management of the Sovereign Grant 2016 to 2023 – Buckingham Palace Reservicing

Financial Management Framework

4.1 The ten-year reservicing programme is being delivered by the Royal Household using a dedicated Project Management Office (PMO), consisting of both Household staff and external consultants. Management of the programme risk sits with the Master of the Household as Senior Responsible Owner (SRO) and the Keeper of the Privy Purse as Accounting Officer, both of whom are accountable to HM Treasury and Parliament. The SRO and the Accounting Officer, as members of the Lord Chamberlain's Committee, provide regular reports on the programme's progress and the impact on the Royal Household's operations. HM Treasury is engaged throughout the programme through attendance at meetings of the Sovereign Grant Audit and Risk Assurance Committee and the independent Programme Challenge Board.

4.2 The programme risks are mitigated by the PMO's management of the procurement and construction process, and the programme being delivered in phases. The phased approach also provides the flexibility required to adapt the programme and address the impact of changes, which are inevitable over a programme of this length.

4.3 The Royal Household has established a clear and detailed governance process to allow the continual monitoring of programme risks and to ensure that progress is being achieved according to targets. This is done through an Integrated Assurance Group which regularly reviews the overall governance of the programme. In line with the Government Infrastructure & Projects Authority process, there is a programme of formal Gateway Reviews and Checkpoint audits undertaken by independent reviewers. Seven Programme Assessment Reviews and four Gateway Reviews had been completed as at 31 March 2023 to inform the Programme Challenge Board.

4.4 The Buckingham Palace Reservicing Programme Executive Board (PEB) meets monthly and is the principal programme board which oversees the delivery of the Royal Household's Reservicing programme at Buckingham Palace.

4.5 The Buckingham Palace Reservicing Programme Challenge Board (PCB) meets quarterly. Its primary responsibility is to provide specialist scrutiny, oversight, advice and guidance to the PEB and the SRO as they work to deliver the Buckingham Palace Reservicing programme.

Review of expenditure and income

4.6 The ten-year reservicing programme commenced in 2017-18. Total annual expenditure increased each year to 2021-22 as activities on-site increased across the various wings. Expenditure fell back to just under £50 million in 2022-23, in line with available funding.

4.7 The bulk of the expenditure on reservicing relates to **property maintenance**. In the first four years of the programme to 2020-23, main activities included the following.

- Establishment of the Project Management Office (PMO) team and workspace.
- The procurement of design consultants and progression of detailed designs for the entire works.
- The design, delivery and completion of the High Priority Works which included upgrading Buckingham Palace's main plant and installing new water tanks, providing a new Energy Centre and standby power generation. A range of enabling works were also undertaken, including the removal of Vulcanised India Rubber (VIR) cabling. Together, these mitigated the risk of fire and flooding and created the ability to isolate zones, enabling operations to continue throughout the building during future works.
- Commencement on site of the East Wing Construction Manager and the enabling works contractor removing asbestos and making the structural alterations, followed by the completion of two new lift shafts to make the Palace more accessible and the fit out of new plant rooms, bathrooms/ensuites and kitchens.
- The design, delivery and completion of the Privy Purse Door ramp in the East Wing, providing step-free access to the front of the Palace, a significant operational improvement.
- Acceleration of the South Wing Reservicing with the completion of enabling works, and development of the West Wing Reservicing to deliver operational improvements and key programme deliverables. This includes completion of the West Wing advance works and reservicing works to the Grand Entrance, Grand Staircase, Minister's Stairs, Marble Hall and Picture Gallery, as well as completion of the Picture Gallery roof replacement.
- Planning and sequencing of future works across the programme to take account of the impact of the Covid-19 pandemic whilst ensuring the continuing functioning of the Palace and remaining within budget.

4.8 **Payroll costs** increased from £0.4 million in 2017-18 to £1.9 million in 2022-23, reflecting the increase in staff numbers as activity increased.

Other staff costs are principally agency staff costs, being staff seconded from external experts. After increasing across the first three years of the programme as activity increased, these costs fell back to £1.9 million by 2022-23 due to fewer external agency staff being required at this point in the programme.

4.9 **Income** relating to Reservicing activities was largely negligible across the period. In 2019-20 there was £0.1 million income relating to rent collected by core Sovereign Grant from staff in external accommodation paid for by the Reservicing Programme due to being displaced by the programme.

4.10 Across the first three years of the programme, the Reservicing **reserve** accumulated as annual funding exceeded initial activity. From 2020-21 this reserve began to be drawn down as, in accordance with the programme, construction works increased and expenditure exceeded the in-year Grant funding.

4.11 A summary of Sovereign Grant income and expenditure in relation to Buckingham Palace reservicing for 2016 to 2023 is at Annex B.

Chapter 5

Expected costs for the period 2023 - 2027

Core activities

5.1 This section of the report covers the period as far as 2026-27. The Royal Trustees will have an opportunity to review the percentage used in the funding formula again ahead of the 2027-28 financial year.

5.2 This period follows a change of reign with the accession of King Charles III in 2022. The Royal Household is therefore adapting its operations to support The King and Queen in Their official duties, including delivering their programme of events. This is not expected to drive an above inflation increase in overall expenditure (other than for Buckingham Palace Reservicing and property maintenance) over the period compared with pre-Covid 19 levels of expenditure.

5.3 **Income supplementing the Sovereign Grant** is expected to increase. The formula used to determine the facilities management charges has been revised with the agreement of the Royal Collection Trustees in 2022-23 and should deliver a recovery in the facilities management charges to pre-Covid-19 levels in 2023-24. This change to the facilities management charges is expected to deliver an additional income of £5.9 million over the period compared with the original basis and will contribute significantly to alleviating the financial pressures arising from the Sovereign Grant being flat for several years.

5.4 **As noted in Chapter 3, payroll costs** increased in 2022-23 after two years of pay freeze and reduced headcount as vacancies were left unfilled to help manage costs. Payroll costs for the remainder of the period to 2026-27 are expected to increase in line with contractual pay arrangements.

5.5 **Travel costs** are expected to remain broadly stable over the remainder of the period to 2026-27. The King's Helicopter Flight currently operate two helicopters which are both scheduled for replacement in 2024-25. The procurement of replacements has been subject to a formal business case which was approved by HM Treasury during 2022-23. The contract was signed in May 2023 and the leases will be capitalised under IFRS 16 in due course.

5.6 To continue reversing the decline in the condition of the Estate, the Royal Household plan to prioritise increasing **core property maintenance expenditure** back to pre-Covid-19 levels as soon as funding is available. Expenditure on core property maintenance is expected to increase by 97% from £13.4 million (2022-23) to £26.4 million

(2026-27). The principal projects which have been identified as priorities include the repairs to facade masonry across the London and Windsor Estate, a continuation of roof repairs across the Estate, the refurbishment of properties to deliver an increase in property rental income, and projects to deliver net-zero carbon emissions.

5.7 The anticipated reduction in core property maintenance expenditure over the five years from 2019 to 2025 (due to the financial impact of Covid-19 on the Sovereign Grant) will limit the ability to reverse the deterioration of the condition of the estate by the end of the period. However, the anticipated increase in funding from 2025-26 should enable the Household to establish a good basis for further progress over the subsequent period.

5.8 As a result, it is anticipated that by the end of the period, the Royal Household will have continued to meet its commitment to allocate at least 50% of the annual increase in the Grant (on a cumulative basis) to property maintenance in order to reduce the backlog in essential maintenance.

Buckingham Palace Reservicing

5.9 The financial impacts of Covid-19 set out elsewhere in this report are expected to result in lower than originally anticipated funding until 2025. Delivery of the programme has also been impacted by the inflationary effects of material and resource shortages. As a result of these factors, the forward plan for the programme was re-phased during 2022-23.

5.10 This re-phase assumes flat Grant funding continues through to 2024-25, with the balance of the £369 million agreed funding for the ten-year programme received across 2025-26 and 2026-27. This has resulted in elements of the programme being deferred to later in the programme, but with construction still planned to be completed within ten years by March 2027.

5.11 The expenditure over the four years is as follows.

- 2023-24: completion of East Wing and West Wing Main toilet facilities, enabling works in both the West Wing and South Wing to commence. Palace Wide Infrastructure works continue.
- 2024-25: West Wing and South Wing Works commence. Palace Wide Infrastructure works complete.
- 2025-26: commencement of North Wing, continued Reservicing work on West Wing and South Wing.
- 2026-27: Completion of West Wing, South Wing and North Wing.

5.12 Gateway Reviews for the East Wing and West Wing projects are scheduled for July 2023 and September 2023 respectively, with a further Programme Assessment Review planned for October 2023.

Chapter 6

The Crown Estate's Revenues

6.1 In reviewing whether the percentage used in the grant calculation formula is appropriate, the Royal Trustees need to review:

- the previous and expected expenditure by the Household, as detailed in the previous three chapters
- any significant expected changes to the profile of income supplementing the Sovereign Grant, as detailed in chapter 4
- the likely profile of The Crown Estates Net Revenue Profits over the years that will be used to determine the annual Grant amounts during the forward period – as detailed below.

6.2 Under the grant calculation formula set out in Section 6 of the Act, the annual amount of the Sovereign Grant is set by reference to the higher of 25% of The Crown Estate's net revenue profits two years earlier or the preceding year's Grant amount.

6.3 Following the introduction of the Sovereign Grant, The Crown Estate's revenues grew steadily each year to 2019. As a result, the Grant also increased each year in line with this revenue growth.

6.4 However, in common with other property businesses, the economic impact of the Covid-19 pandemic had a significant effect on The Crown Estate's revenues. As a result, Net Revenue Profit was broadly flat in 2019-20 compared with the previous year, and then below these levels in each of the following two years.

6.5 As a result, the annual Sovereign Grant increased by 0.5% in 2021-22, and will have been flat in each of the two following years. As set out in Chapter 3, this has been accompanied by a reduction in income supplementing the Sovereign Grant, again due to the impacts of the Covid-19 pandemic.

6.6 The Household has therefore had to manage its expenditure to ensure it remains within available funding. In particular, the reserve in respect of the Buckingham Palace Reservicing Programme has been fully drawn down in 2022-23, and for 2023-24 activity will need to be matched to the annual funding available. This is set out in further detail in previous chapters.

6.7 However, The Crown Estate's Net Revenue Profits are expected to increase significantly in future years. In addition to the recovery in its

existing business lines, The Crown Estate announced in January 2023 that it had concluded Agreements for Lease with developers for the latest offshore wind developments (“Round 4”). As a result, developers commenced payment of options fees for these developments, which across all projects is expected to be approximately £1 billion a year until these sites become operational.

6.8 The Crown Estate has also agreed with the Treasury that, from 2022-23, a higher proportion of revenue will be transferred to capital each year. This will provide funding to support additional investments by The Crown Estate, in particular in respect of facilitating the next round of offshore wind development. The Crown Estate and the Treasury will review this revenue transfer level again no later than March 2026.

6.9 Even accounting for this increased transfer to capital, The Crown Estate’s net revenue profits are expected to increase significantly as a result of the Round 4 option fees. As payment of the Round 4 option fees commenced in January 2023, they impacted on The Crown Estate’s Net Revenue Profit for 2022-23, but the first full year’s impact will be in 2023-24.

6.10 It would therefore not be appropriate to assume that The Crown Estate’s Net Revenue Profit will simply follow a linear increase in the coming years. While there are still inevitable uncertainties around the future path of Net Revenue Profits, for the purposes of this review, the Royal Trustees have assumed the following:

- excluding Round 4 option fees, Net Revenue Profits grow in line with the long-term trend seen prior to the Covid-19 pandemic (5.2% annual growth)
- Net Revenue Profit is then supplemented by £730 million as a result of Round 4 option fees¹ in each of 2023-24 and 2024-25.

6.11 The overall impact of these assumptions are set out in the table below. As set out in paragraph 6.2, the annual amount of the Sovereign Grant is set by reference to Net Revenue Profits two years earlier, so the figures below are the ones relevant to considering the amount of the Grant out to 2026-27.

	Actual	Projected (to nearest £10 million)	
Year	2022-23	2023-24	2024-25
Net Revenue Profit	£442.6 million	£1040 million	£1050 million

Following The Crown Estate’s announcement that it had concluded the Round 4 Agreements for Lease, the Keeper of the Privy Purse wrote to

¹ This assumes option fee income is £1 billion in each of 2023-24 and 2024-25, which then translates into £730 million additional Net Revenue Profit as, in common with other revenue, 27% will be transferred to capital.

both his fellow Royal Trustees to convey The King's wish that the Trustees review an appropriate reduction in the proportion of The Crown Estate Profits for the calculation of the Sovereign Grant (reproduced at annex C). This is consistent with the requirements of the Act for the Trustees to use this review to assess the appropriateness of the percentage.

Chapter 7

Determination and impact of the revised percentage

7.1 In determining the appropriate percentage to be used in the grant calculation, the Trustees need to be mindful that any changed percentage would apply from 2024-25 until at least the end of the current period, that is up to and including the Grant for 2026-27. The Royal Trustees will then have a further opportunity to consider the appropriateness of the percentage used ahead of 2027-28.

7.2 Given the forward plan and associated expected costs for the period 2023 – 27 set out in Chapter 5, and the likely trajectory of The Crown Estate’s future annual net revenue profit set out in Chapter 6, the Royal Trustees consider that it is no longer appropriate to use a 25% figure for the grant calculation formula. As set out in Chapter 6, by 2023-24, Net Revenue Profits could be over £1 billion, meaning continuing to use a 25% figure would lead to funding provided by the Grant being significantly in excess of the Household’s needs.

7.3 The Royal Trustees have determined that an appropriate percentage for the funding formula would be 12%. While The Royal Trustees note that there are inevitable uncertainties around the future path of Net Revenue Profits, on the basis of the projections set out in Chapter 6, a 12% figure is expected to ensure an appropriate level of funding for the Household over this period.

7.4 This will facilitate a return of official activity to pre-Covid levels, enable an expansion in work on the long-term backlog in essential property maintenance following several years of reduced activity due to financial constraints, and provide the remaining balance of the £369 million funding agreed by the Treasury in 2016 for the ten-year Buckingham Palace Reservicing Programme.

7.5 The Royal Trustees further note that they will next have an opportunity to review the appropriateness of the percentage used for the grant calculation formula in 2026, and that the Government intends to bring forward legislation to reset the level of the Grant once the reservicing works to Buckingham Palace have been completed. This will also enable the level of the Grant to be reset to account for any excess build-up of funds more generally, for example if Net Revenue Profits in the coming years are higher than expected.

7.6 This reduced percentage will apply to the determination of the Grant for 2024-25, which will be set by reference to The Crown Estate's net revenue profit in 2022-23. As set out in Chapter 6, a full year's worth of Round 4 option fees will not impact on The Crown Estate's net revenue profit until 2023-24. The Royal Trustees recognise that the impact of reducing the percentage used to determine the 2024-25 Grant amount is likely to lead to the Grant being set at the same amount as the preceding year. The Grant level is then projected to increase significantly for 2025-26 and be maintained at a similar level in 2026-27. The Royal Trustees are satisfied that this expected step up in the Grant level is appropriate given the several preceding years of flat Grant levels which have constrained activity in respect of property maintenance work and Buckingham Palace Reservicing.

7.7 As required by Section 5 of the Act, once the change in the percentage used in the grant calculation formula has taken effect, the Royal Trustees will produce a report in the coming months setting the level of the Grant for 2024-25.

A Summary of Sovereign Grant income and expenditure 2016 – 2023 – core activities

Table A.1: Summary of Sovereign Grant income and expenditure 2016-23 – core activities (£ million)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Funding received:							
Sovereign Grant	42.8	45.7	49.3	49.4	51.5	51.8	51.8
Sovereign Grant Reserve	(0.9)	(2.4)	0.3	(1.2)	(2.8)	(4.0)	6.7
Total Funding	41.9	43.3	49.6	48.2	48.7	47.8	58.5
Income							
Property Rental Income	3.1	3.3	3.2	3.2	3.4	3.3	3.6
Facilities Management Charge	5.3	6.0	7.0	7.3	(0.2)	0.4	0.5
Recharges & other income	6.5	11.4	7.6	9.6	6.2	6.2	5.7
Transfer to non-current assets reserve	-	(3.4)	-	-	-	-	-
Total Income	14.9	17.3	17.8	20.1	9.4	9.9	9.8
Expenditure							
Payroll costs	20.3	21.0	22.1	23.0	22.4	22.0	25.2
Other staff costs	1.4	1.6	1.7	1.9	1.1	1.4	3.1
Property maintenance	17.8	19.8	23.7	21.9	17.9	16.1	14.8
Housekeeping & hospitality	2.2	2.3	2.2	2.5	0.9	1.3	2.4
Digital services	3.0	3.0	3.8	4.2	3.4	2.9	3.6
Utilities	3.1	2.7	2.9	3.1	3.2	3.2	4.5
Travel	4.5	4.7	4.6	5.3	3.2	4.5	3.9
Depreciation	1.5	1.6	2.0	2.1	2.4	2.0	2.9
Other	3.0	3.9	4.4	4.3	3.6	4.3	7.1
Total costs	56.8	60.6	67.4	68.3	58.1	57.7	68.3
Net expenditure	(41.9)	(43.3)	(49.6)	(48.2)	(48.7)	(47.8)	(58.5)
(Shortfall) / Excess of funding	-	-	-	-	-	-	-

Source: The Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2016-17 to 2022-23

B Summary of Sovereign Grant income and expenditure 2016-2023 – Buckingham Palace Reservicing

Table B.1: Summary of Sovereign Grant income and expenditure 2016-23 - Buckingham Palace Reservicing (£ million)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Funding received:							
Sovereign Grant	-	30.4	32.9	33.0	34.4	34.5	34.5
Sovereign Grant Reserve	-	(26.3)	(15.5)	(11.8)	4.4	20.1	14.7
Total Funding	-	4.1	17.4	21.2	38.8	54.6	49.2
Income							
Property Rental Income	-	-	-	0.1	-	-	-
Facilities Management Charge	-	-	-	-	-	-	-
Recharges & other income	-	-	-	-	-	-	-
Transfer to non-current assets reserve	-	-	-	-	-	-	-
Total Income	-	-	-	0.1	-	-	-
Expenditure							
Payroll costs	-	0.4	1.1	1.4	1.7	1.7	1.9
Other staff costs	-	0.6	1.8	2.6	2.2	2.4	1.9
Property maintenance	-	2.8	14.1	16.4	31.6	47.8	43.0
Housekeeping & hospitality	-	-	0.1	0.1	-	-	-
Digital services	-	-	-	-	0.3	0.3	0.4
Utilities	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-
Depreciation	-	-	-	0.2	0.9	1.4	1.4
Other	-	0.3	0.3	0.6	2.1	1.0	0.4
Total costs	-	4.1	17.4	21.3	38.8	54.6	49.2
Net expenditure		(4.1)	(17.4)	(21.3)	(38.8)	(54.6)	(49.2)
(Shortfall) / Excess of funding	-	-	-	-	-	-	-

Source: The Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2016-17 to 2022-23

C Letter from the Keeper of the Privy Purse to his fellow Royal Trustees, January 2023

From: Sir Michael Stevens KCVO

17 January 2023

Dear Sir

I am writing to you at the request of His Majesty The King and as a Royal Trustee of the Sovereign Grant.

His Majesty has been briefed through the Crown Estate and HM Treasury on the Crown Estate's planned public announcement of a substantial increase in revenues from the award of offshore wind licences on Thursday 19 January.

Accordingly The King has asked me to convey to you as Royal Trustees that, mindful of the declaration His Majesty' made at his Accession Council on the use of Crown Estate revenues for the benefit of the people, it is His Majesty's sincere wish that in accordance with the Sovereign Grant Act the Trustees review an appropriate increase in the proportion of the Crown Estate surplus which he will continue to surrender for this important purpose.

Yours sincerely,

Sir Michael Stevens

Keeper of the Privy Purse

HM Treasury contacts

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