

*These notes refer to the Sovereign Grant Act 2011
(c.15) which received Royal Assent on 18 October 2011*

SOVEREIGN GRANT ACT 2011

EXPLANATORY NOTES

COMMENTARY ON SECTIONS AND SCHEDULES

The Sovereign Grant

Section 1: The Sovereign Grant

27. This section defines the new grant and introduces the formula in *section 6* which will specify its amount each year.
28. *Subsection (1)* provides for the Treasury to pay a Sovereign Grant for each financial year.
29. *Subsection (2)* specifies that the grant is to meet expenditure of the Royal Household in support of Her Majesty's official duties. (See also *section 13* which contains provisions about the meaning of references in the Act to those official duties and to the Royal Household.)
30. *Subsection (3)* sets Sovereign Grant for the financial year 2012-13 at £31m. This is equal to the level of civil list and grant support to the Royal Household in 2010-11, plus a supplement of £1m to meet the additional expenses of the Diamond Jubilee in 2012.
31. *Subsection (4)* provides that, from 2013-14, the amount of the grant is determined by the process set out in *section 6*.
32. *Subsection (5)* indicates that the amount of grant set in accordance with *subsections (3) and (4)* can be affected by *section 9* (that is, in circumstances where income from the Duchy of Cornwall is received by the Sovereign).
33. *Subsection (6)* makes Parliament responsible for paying the Sovereign Grant, i.e. it will be made available through an Estimate which Parliament has voted to approve. In practice, the Sovereign Grant will be paid through the Treasury Estimate.

Section 2: Accounts of the Royal Household

34. This section prescribes arrangements for the accounts and audit of the Royal Household. As with other areas of public expenditure, the Treasury defines how the Household's resource accounts showing use of Sovereign Grant should be drawn up. The Comptroller and Auditor General (who is the government's external auditor) will audit them.
35. *Subsections (1) and (2)* provide that the Keeper of the Privy Purse (The Queen's Treasurer and the Royal Household's Accounting Officer) must:
 - keep proper accounting records of the Royal Household's activities in support of Her Majesty's official duties;
 - prepare resource accounts; and
 - submit them to the Comptroller and Auditor General.

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36. *Subsection (3)* specifies the basic content of the resource accounts while *subsection (4)* gives the Treasury power to make directions about their form, including additional material. The Treasury's current intention is that the accounts direction will be similar to accounts directions used elsewhere in central government, with some contextual adjustments.
37. *Subsection (5)* instructs the Comptroller and Auditor General to audit the accounts and submit them and a report on the accounts to the Treasury.
38. Under *subsection (6)*, the Treasury must then lay the auditor's report and the accounts before Parliament and submit a copy to the Royal Trustees.
39. *Subsection (7)* defines the concept of the Royal Household's "net relevant resources used" which the resource accounts are to record. It should be read with *section 13(9)* which limits the accounts to use of resources by the Royal Household in support of the Sovereign's official duties. The concept nets off associated income such as fees and rents. The "net relevant resources used" would include resources derived from the Duchy of Cornwall when they are at the disposal of the Sovereign (see *section 9*). Spending supported from the Privy Purse that is used for official duties would not be included because those are the Queen's personal resources.
40. *Subsection (8)* provides the Comptroller and Auditor General with powers to scrutinise the Royal Household accounts and report on the economy, efficiency and value for money achieved in use of public funds.

Section 3: The Reserve Fund

41. This section sets up a Reserve Fund. It will contain Sovereign Grant not used for the year for which it is made. Similarly, in years when use of resources exceeds the amount of the grant, drawings from the reserve will supplement the Sovereign Grant.
42. *Subsection (1)* sets up the Reserve Fund. It will contain surplus Sovereign Grant and funds derived from it.
43. *Subsection (2)* gives the Royal Trustees discretionary powers to invest the Reserve Fund.
44. *Subsections (3) and (4)* direct how the reserve should be filled and drawn down – respectively to store excess unused grant and to supplement Sovereign Grant when necessary. The Royal Trustees are to be responsible for seeing that this process is performed properly. The reserve cannot be overdrawn.
45. After the audit for the year, the amounts transferred into or out of the reserve should align with the Royal Household's resource use for the year. Unused grant must be paid into the Reserve Fund after the audit. If the Royal Household has used more resources than the Sovereign Grant has provided for the year, the Trustees must transfer to the Keeper an amount equal to the excess (or less if there is less in the Fund).
46. *Subsection (5)* allows interim payments to or from the reserve in anticipation of the amounts that will be required to balance the books at the year end. *Subsection (6)* ensures that these interim payments are to be taken into account in calculating whether any final payment is due later and, if so, the amount of any payment.
47. *Subsection (7)* permits the Royal Trustees to authorise loans from the reserve to finance capital expenditure. The Royal Household's resource accounts will show use of these resources through depreciation so that the process is transparent.
48. *Subsection (8)* provides that payments to the Keeper from the Reserve Fund are not treated as additional income for the purposes of calculating the amount of net relevant resources used for a financial year.

Section 4: Accounts of the Reserve Fund

49. This section provides for the accounts and audit of the Reserve Fund. As with the accounts of the Royal Household (*section 2*), the Treasury sets the form of the accounts and the Comptroller and Auditor General audits them.
50. *Subsection (1)* requires the Royal Trustees to keep proper accounting records of the Reserve Fund.
51. *Subsection (2)* requires the Royal Trustees to prepare timely accounts of the Fund for each financial year and to give them to the Comptroller and Auditor General.
52. *Subsections (3) and (4)* outline the content and form of the accounts, and confer a power on the Treasury to give directions about the accounts.
53. *Subsection (5)* requires the Comptroller and Auditor General to audit the accounts promptly and to submit the accounts and a report on them to the Treasury.
54. Under *subsection (6)*, the Treasury must lay a copy of the report and statement of accounts before Parliament.
55. *Subsection (7)* provides the Comptroller and Auditor General with powers to scrutinise the Reserve Fund and report on the economy, efficiency and value for money achieved in use of public funds.

Section 5: Annual report as to the amount of Sovereign Grant

56. This section requires the Royal Trustees to prepare a report about the determination of the Sovereign Grant. They must calculate the amount of Sovereign Grant for the coming financial year and explain how it has been calculated. Because the report is published and laid in Parliament, the whole process will be transparent.
57. *Subsection (1)* requires the Royal Trustees to prepare a report determining the amount of Sovereign Grant for the following financial year and explaining how it has been calculated, following the process in *section 6*.
58. To prepare the report, the Royal Trustees must draw on audited and published information about the previous financial year relating to: the Sovereign Grant (*section 2*); the Reserve Fund (*section 4*); and the Crown Estate. When all the relevant, audited financial information is available, *subsection (2)* requires the Trustees to prepare the report promptly.
59. *Subsections (3) and (4)* provide that the Royal Trustees must give a copy of the report to the Treasury who must lay it before Parliament.

Section 6: Determination of the amount of Sovereign Grant

60. This section sets out how the standard formula for Sovereign Grant is to operate.
61. There are five steps to be followed. They are set out in *subsection (1)*.

Step 1 specifies the essential calculation:

The starting point is 15% of the income account net surplus for the Crown Estate for the “base year”.

The base year is defined in the step as the financial year two years before the year for which the grant is being set.

Step 2 rounds this amount up to the nearest £100,000.

Step 3 specifies an amount which is the greater of the Step 2 amount and the amount of the Sovereign Grant for the year before the year for which the grant is being set.

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Step 4 applies only if the value of the Reserve Fund at the end of the base year is more than half of the net relevant resources used for that year. If this happens, the Royal Trustees may reduce the Step 3 amount by such amount as they consider appropriate - see the commentary on *subsection (4)* below.

Step 5 provides that the amount of Sovereign Grant is the Step 3 amount, or if Step 4 applies, the Step 3 amount reduced by any reduction made under Step 4.

62. The amounts of the Sovereign Grant will depend on Crown Estate profit from two years before so that the calculation can be made at the time the grant is set. The Treasury Estimate for a given year is drawn up and laid in Parliament shortly before the year in question. By that stage the most recent audited accounts for both the Crown Estate and the Royal Household will be for the previous year, ie two years before the year for which the new Estimate prescribes the grant.
63. *Subsection (2)* provides that the adjusted value of the Reserve Fund at the end of the financial year means the value of that fund at the end of that year, taking into account any post-year adjustments. *Subsection (3)* provides that post-year adjustments that are already reflected in the audited accounts of the Reserve Fund are not counted twice as part of calculating the adjusted value.
64. *Subsection (4)* applies if the Royal Trustees have the power to reduce future Sovereign Grant under Step 4. The reduction they make should be made on the basis that with the reduction the Reserve Fund, at the end of the year, will stand at about half of the net relevant resources used in that year.

Section 7: Review by Royal Trustees of Sovereign Grant

65. This section requires the Royal Trustees to consider at fixed intervals whether the percentage in *section 6(1)* remains appropriate.
66. Under *subsection (1)*, the Royal Trustees must review whether the percentage set out in Step 1 of *section 6(1)* remains appropriate.
67. Under *subsection (2)*, the Royal Trustees must prepare a report setting out and explaining the conclusions of their review, including a recommendation for a different percentage if they think one justified.
68. *Subsections (3) and (4)* provide that the Royal Trustees must give a copy of the report to the Treasury, who must lay it before Parliament.
69. *Subsection (5)* requires regular reviews, starting from 1 April 2012. The first review must take place after 4 years, so it will begin in Spring 2016. Thereafter a review is required every 5 years.

Section 8: Power to change level of Sovereign Grant

70. This section applies if the Royal Trustees' review calls for a different percentage to be used in the formula in *section 6*. It requires the Treasury to implement the conclusions of the review.
71. Under *subsection (2)*, the Treasury must lay an order to amend the percentage in *section 6(1)*. *Subsection (3)* requires the affirmative Parliamentary procedure (in the House of Commons only) to approve any increase in the percentage. *Subsection (4)* provides for the negative procedure (again, Commons only) for an order that decreases the percentage.

Section 9: Duchy of Cornwall income and grant to the heir to the throne

72. This section adjusts the Sovereign Grant where the Duke of Cornwall is under 18 and where there is no Duke of Cornwall.

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73. When the Duke of Cornwall is under 18, the amount of Sovereign Grant in each year or part year is reduced by 90% of the income account net surplus of the Duchy of Cornwall for the period. A corresponding amount of the Duchy's income is placed at the disposal of Her Majesty. Duchy income does not increase the Sovereign's resources because the Sovereign Grant is reduced proportionately. That arrangement reflects the current statutory provisions for the civil list.
74. Where the revenues of the Duchy of Cornwall are vested in Her Majesty (because there is no Duke of Cornwall) the section provides for the amount of the Sovereign Grant to be reduced by the amount of the income account net surplus of the Duchy for that period.
75. When Duchy revenues are vested in Her Majesty, the section also provides for a grant to be made by the Treasury to the heir to the throne (who would not be the Duke of Cornwall). Such heirs, if they are adult, would receive a grant equivalent to the amount by which the Sovereign Grant has been reduced on account of the Duchy revenues. If they are under 18, they receive 10% of that amount. The net effect is broadly that an adult heir to the throne, whether or not that person is also Duke of Cornwall, receives the equivalent of the net income of the Duchy. If the heir is a minor, the equivalent of 10% of the Duchy's net income is received.
76. *Subsection (1)* applies when the Duke of Cornwall is under 18. When that happens, the Sovereign Grant is reduced by 90% of the income account net surplus of the Duchy. An equivalent amount of Duchy income is placed at the disposal of the Sovereign to offset that reduction.
77. *Subsection (2)* provides that where the Duchy of Cornwall is vested in Her Majesty the amount of the Sovereign Grant for that year is reduced by an amount equal to the net income of the Duchy of Cornwall for the relevant period. When that happens, the heir to the throne is to receive a grant payable by the Treasury.
78. *Subsection (3)* sets the amount of the Treasury grant payable under *subsection (2)*. If the heir is aged 18 or over, the grant is equal to the reduction in Sovereign Grant that is made for the period. If the heir is under 18, the grant is 10% of that amount.
79. *Subsection (4)* provides that where the grant is payable to an heir who is under 18 it will be paid to the Royal Trustees who are to hold it on trust for the heir on such terms as the Treasury direct.
80. *Subsection (5)* provides that any reduction in the amount of the Sovereign Grant under *section 9* is to be ignored for certain purposes such as calculating the need for payments into and out from the Reserve Fund. That is because any reduction in the Sovereign Grant to take account of income the Sovereign receives from the Duchy does not affect the overall resources at the Sovereign's disposal. Rather it means the same amount of resources are being provided from two sources not one.
81. *Subsection (6)* provides that income from the Duchy of Cornwall is treated as part of the Sovereign Grant in *sections 2(7)(b) and 11* of the Act where the amount of the Sovereign Grant has been reduced under *section 9*. That is because in these circumstances Duchy income is a replacement for Sovereign Grant and needs to be treated as such.
82. *Subsection (7)* provides that for the purposes of determining the income account net surplus for part of a financial year, the income net surplus for the whole year is to be apportioned equally in respect of each day of that year.
83. *Subsection (8)* is required to work out how much the Treasury grant should be.
84. *Subsection (9)* allows the Treasury to make the reductions required by this section, and to pay the grant under this section, on the basis of an estimate of the net income of the Duchy of Cornwall for a financial year or part financial year until the accounts of the Duchy of Cornwall have been submitted to the Treasury in accordance with

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section 2 of the Duchies of Lancaster and Cornwall (Accounts) Act 1838. Any necessary adjustments may be made after those accounts have been submitted.

85. *Subsection (10)* makes the Treasury grant payable out of money provided by Parliament.