



National Audit Office

Report

by the Comptroller
and Auditor General

The Royal Household

The Sovereign Grant

Key facts

£31m

Value of the Sovereign Grant in 2012-13

15%

Income account net surplus of the Crown Estate to be received as the Sovereign Grant from 2013-14

£1m

Balance on the Sovereign Grant Reserve at end of 2012-13

1760

The year the Government began funding the Sovereign in exchange for the net income of the Crown Estates

2015-16

First review by the Royal Trustees of the level of the Sovereign Grant

5 years

Between reviews of the Sovereign Grant funding formula

£37.9 million

Expected value of the Sovereign Grant in 2014-15

50 per cent

Maximum size of the Sovereign Grant Reserve Fund relative to the level of the Grant

Summary

1 Since 1760, when George III agreed to surrender the net income of the Crown Estates to the Exchequer in return for a fixed annual payment, the Government has provided financial support to the Sovereign. Most recently this support was provided in three parts: the Civil List, which was provided to meet the official expenses of the Royal Household (the 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. From 1 April 2012 the financial support has been consolidated into the Sovereign Grant (the Grant) and the existing Civil List reserve fund transferred into a Sovereign Grant Reserve.

2 The Sovereign Grant Act 2011 (The Act) set the initial Grant for 2012-13 at £31 million. For subsequent years the level of the Grant is based on a percentage, initially 15 per cent, of the net income of the Crown Estates in the year two years prior to the funding year. Following this formula the Grant is set to rise to £36.1 million in 2013-14 and is likely to be £37.9 million in 2014-15.

3 The Act also introduced new arrangements to strengthen the accountability and scrutiny of the Household for the spending on The Queen's official business. The Comptroller and Auditor General is the statutory auditor of the Sovereign Grant and Sovereign Grant Reserve accounts which are laid before Parliament. The Committee of Public Accounts can also examine the Grant accounts and therefore consider the full level of support to the Household whereas previously it could only examine aspects of the Royal Finances through its scrutiny of the Grants-in-Aid.

4 The first Annual Report and Accounts for the Sovereign Grant and Reserve Fund, covering 2012-13, were published on 27 June 2013, and form the basis of this memorandum. The memorandum sets out:

- The changes to the Household's funding arrangements and the introduction of the Sovereign Grant (Part One)
- The calculation of the Sovereign Grant, the Reserve Fund and the impact on the Household's management of its finances (Part Two)
- The Household's financial management of the Sovereign Grant (Part Three).

Key Observations

The Sovereign Grant

5 The Grant offers the Household greater flexibility in managing its spending.

Prior to the Grant the separate funding regimes of the Civil List and the Grants-in-Aid required the 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. Under the new arrangements, consolidating the financial support and increasing flexibility in the use of resources allows the Household to allocate spending in the way that it considers best achieves its objectives.

6 The Grant provides the Household greater certainty over future funding levels and enables it to budget for the longer-term.

The funding formula will keep the Grant in line with the income growth achieved by the Crown Estate and guarantees a minimum level of annual funding as the Grant cannot drop below the previous year's funding. This certainty should facilitate the Household's longer-term planning, particularly around its property maintenance programme.

7 The Act has established safeguards to ensure that the size of the Grant is controlled and the Household cannot accumulate large funding reserves.

The Royal Trustees (the Trustees - the Prime Minister, the Chancellor of the Exchequer, and the Keeper of the Privy Purse) will review the percentage of Crown Estate income surplus in the formula in 2015-16, and every five years thereafter, to control any significant growth in Grant funding. The Trustees are also required to act if the Sovereign Grant Reserve is likely to exceed more than 50 per cent of the Grant.

The financial management of the Sovereign Grant

8 The Household has an established financial planning and budgeting system and process for monitoring performance.

The Household's Three Year Plan sets out its business objectives and forecast budgets, in line with The Queen's Programme. The Household updates the Plan annually and sets a detailed Sovereign Grant Budget which it submits to Treasury for approval. The Lord Chamberlain's Committee monitors performance against the Sovereign Grant Budget through detailed monthly management accounts, which link financial and operational performance. The Household has developed specific financial controls over key areas of spending, such as staff costs, travel, and property maintenance; these include established procedures to assist in determining priorities and demonstrating value for money.

9 The Household has responded to decreases in funding by reducing its spending. Over the past 20 years the Household has seen significant reductions in its funding. Between 1991-92 and 2011-12, the funding for Royal Travel was reduced by 76 per cent in real terms, and the Grant-in-Aid for the maintenance of the Occupied Royal Palaces was reduced by 60 per cent in real terms. In response to this the Household reduced its net expenditure by 55 per cent in real terms. In 2011-12 the Household's net expenditure totalled £32.9 million in real terms, compared to an equivalent £72.6 million in 1991-92.

10 Since the last Civil List was set in 2001, the Household has drawn-down funds from reserves to meet its spending in support of Her Majesty's official duties. At its peak in 2001 the Royal Household Investment Committee Reserve (the Civil List Reserve) stood at £35.3 million, this balance was used during the 2000s to fund the excess of expenditure over the Civil List annuity. On 1 April 2012 the remaining reserve balance of £3.3 million was transferred to the Sovereign Grant Reserve. In the first year of the new Grant, a further £2.3 million was drawn-down leaving the reserve balance at £1.0 million.

11 More recently the Household has increased its income from other sources. Since the Committee of Public Accounts' last report, the Household has increased income by 54 per cent in real terms. In 2012-13 the Household generated over £11.6 million through income and recharges compared with £7.5 million in 2007-08 in real terms. Following PAC recommendations the Household has increased its income from the commercial letting of properties and by making use of its facilities for commercial events. The Household also increased the income from facilities management charges payable by the Royal Collection Trust in respect of Buckingham Palace and Windsor Castle.

12 The Household is re-introducing its process of developing a longer-term plan to address the backlog in property maintenance. The Household's current maintenance plan is aligned with the three-year planning period. In the last two years it discontinued the practice of updating its 10 year plan for property maintenance due to uncertainty over future funding levels. The most recent condition assessment of the Occupied Royal Palaces confirmed that 39 per cent of the Estate was below the Household's target condition at 31 March 2012.

Conclusion

13 The Sovereign Grant Act 2011 brings the audit and accountability arrangements for the Household onto the same footing as those for government departments. Prior to the Act the Committee of Public Accounts' scrutiny of the Royal Finances had been limited to examining the specific Grants-in-Aid for the maintenance of the Occupied Royal Palaces and Royal Travel. The simplification of Parliamentary funding through a single Grant administered by HM Treasury, allows the Committee to scrutinise the spending in support of Her Majesty's official business in full.

14 The Grant provides the Household with greater flexibility in managing its spending and certainty over its future funding levels which should aid the Household's longer-term financial management and planning.

Key challenges for the Household in the future

15 The introduction of the Grant and the increased certainty in funding it provides, offers the Household the opportunity to develop further its long-term financial management. This includes re-establishing a longer-term property maintenance plan which will allow the Household to demonstrate the progress it expects to make in reducing the backlog and bringing the Estate in line with its target condition.

16 The Household has drawn on its reserves to fund its spending in support of official activities in recent years. At 31 March 2013, the Sovereign Grant Reserve stood at £1.0 million, equivalent to three per cent of net expenditure for the year. As part of its long-term planning the Household may need to consider whether the Reserve is adequate to meet unexpected costs.