EXPLANATORY MEMORANDUM TO

THE SOVEREIGN GRANT ACT 2011 (CHANGE OF PERCENTAGE) ORDER 2017

2017 No. 439

1. Introduction

1.1 This explanatory memorandum has been prepared by HM Treasury and is laid before the House of Commons by Command of Her Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 The purpose of this instrument is to amend section 6(1) of the Sovereign Grant Act 2011 ("the Act") so that the percentage specified in Step 1 of that section is changed from "15%" to "25%".

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

3.1 This is the first order to be made under section 8(2) of the Act to change the percentage value specified in Step 1 of section 6(1) of the Act.

Other matters of interest to the House of Commons

3.2 Disregarding minor or consequential changes, the territorial application of this instrument includes Scotland and Northern Ireland.

4. Legislative Context

4.1 Each financial year the Sovereign Grant is paid by the Treasury to Her Majesty in accordance with the Act.

4.2 The amount of Sovereign Grant which is payable for a financial year ("the relevant year") is determined by the Royal Trustees in accordance with a formula in section 6(1) of the Act. Once determined by the Trustees, that amount is included in an annual report published under section 5 of the Act.

4.3 Step 1 of the formula in section 6(1) of the Act requires the Royal Trustees to calculate 15% of the income account net surplus of the Crown Estate for the financial year that begins two years before the relevant year. The income account net surplus of the Crown Estate is defined for these purposes in section 12(1) of the Act.

4.4 Under section 7 of the Act, the Royal Trustees are periodically required to review whether the percentage specified in Step 1 of section 6(1) of the Act ("the relevant percentage") is appropriate. If the Trustees consider that the relevant percentage is not appropriate, they must state in a report the percentage that they consider should apply.

4.5 If a report under section 7 of the Act states that the Royal Trustees consider that the relevant percentage is not appropriate, the Treasury is required to make an order which substitutes, for the relevant percentage, the new percentage which is specified by the Royal Trustees in their report (see section 8 of the Act).

4.6 The first review under section 7 of the Act has been completed by the Royal Trustees and the findings of that review are included in the report *Sovereign Grant Act 2011: Report of the Royal Trustees on the Sovereign Grant Review 2016 (November 2016)* available at: Report of the Royal Trustees on the Sovereign Grant Review 2016 - Publications - GOV.UK

4.7 Paragraph 7.4 of that report states that the relevant percentage should be increased from 15% to 25%. Accordingly, under section 8(2) of the Act the Treasury is required to make an order which changes the relevant percentage from 15% to 25%. This instrument will give effect to that obligation.

5. Extent and Territorial Application

5.1 The extent of this instrument is the United Kingdom.

5.2 The territorial application of this instrument is the United Kingdom.

6. European Convention on Human Rights

6.1 The Economic Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of the Sovereign Grant Act 2011 (Change of Percentage) Order 2017 are compatible with the Convention rights."

7. Policy background

What is being done and why

7.1 Under the Act, the Royal Trustees (the Prime Minister, Chancellor and Keeper of the Privy Purse), in 2016, had to consider whether the current level of 15% of The Crown Estate revenues from two years previously remains appropriate to determine the amount of Sovereign Grant to be paid to support The Queen's official duties.

7.2 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:

(i) the maintenance of Royal residences known as the Occupied Royal Palaces, which are used for formal entertaining and ceremonial events;

(ii) 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; and

(iii) employment costs for Royal Household staff who support the work of Her Majesty as Head of State.

7.3 Technical assessments of Buckingham Palace have highlighted an urgent need for reservicing due to several aspects of the supporting infrastructure, including electrical wiring, water pipework and heating systems, functioning beyond their useful lifespan. There is now a serious risk of fire or flood.

7.4 Based on the evidence which they considered, the Royal Trustees decided that the case for carrying out the reservicing works on Buckingham Palace is compelling, and 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.

7.5 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.

7.6 The increase in resources is only required temporarily, for the duration of the works themselves.

7.7 However, the formula in section 6(1) of the Act currently prevents the level of the grant being reduced from one year to the next (see Step 3 in section 6(1) of the Act). It is the intention of the government to bring forward legislation to reset the level of the Sovereign Grant to appropriate levels once the reservicing works have been completed, which is expected to be in 2026-27.

7.8 The amount of Sovereign Grant will be reconsidered at future reviews, in accordance with the Act.

Consolidation

7.9 As this instrument only amends section 6(1) of the Act, consolidation is not necessary.

8. Consultation outcome

8.1 No consultation has been undertaken, since the Treasury is required to act on the outcome review undertaken by the Royal Trustees.

9. Guidance

9.1 The Royal Trustees Report was laid in Parliament on 18th November and is available on the Gov.uk website.

10. Impact

10.1 There is no impact on business, charities or voluntary bodies.

10.2 The impact on the public sector is that the effective proportion of receipts from the Crown Estate retained by the exchequer will be reduced.

10.3 An Impact Assessment has not been prepared for this instrument.

11. Regulating small business

11.1 The legislation does not apply to activities that are undertaken by small businesses.

12. Monitoring & review

12.1 Under section 7 of the Act, the Royal Trustees are periodically required to review whether the percentage specified in Step 1 of section 6(1) of the Act is appropriate. The next review is in 2021when the percentage substituted by this instrument will be reviewed.

13. Contact

13.1 Susan Mangles at HM Treasury Telephone: 02072707803 or email: Susan.mangles@hmtreasury.gsi.gov.uk can answer any queries regarding the instrument.

13.2