

SOVEREIGN GRANT BILL

EXPLANATORY NOTES

INTRODUCTION

1. These Explanatory Notes relate to the Sovereign Grant Bill as brought from the House of Commons on 14th July 2011. They have been prepared by the Treasury in order to assist the reader of the Bill and help inform debate on it. They do not form part of the Bill and have not been endorsed by Parliament.

2. The notes need to be read in conjunction with the Bill. They are not, and are not meant to be, a comprehensive description of the Bill. So where a clause or part of a clause does not seem to require any explanation or comment, none is given.

SUMMARY

3. The Bill provides new arrangements to support the Sovereign in Her official duties. The arrangements are intended to move from the current civil list arrangements which are reign-specific to a permanent regime which will cover all future Sovereigns, subject to each new Sovereign consenting to extend the Sovereign Grant provisions, and so to continue the payment of the hereditary revenues as directed in section 1 of the Civil List Act 1952, for the duration of his or her reign.

4. At present the government provides four grants to the Royal Household to support Her Majesty The Queen in Her official duties:

- the civil list - an annual grant provided by Parliament direct from the Exchequer to meet the core official expenses of The Queen's Household, so that The Queen can carry out her role as Head of State and Head of the Commonwealth;
- a grant-in-aid for Royal Travel - the Department for Transport provides annual funding to the Royal Household to meet the costs of official travel by air and rail;
- a grant-in-aid for the maintenance of the Royal Palaces: the Department for Culture, Media and Sport is responsible for maintaining the Royal residences and contracts with the Royal Household to do so.

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- a separate grant from that department covers expenditure on communication and information.
- 5.** The Bill develops a new streamlined system of support for Royal Household expenditure on Her Majesty's official duties as sovereign. It puts a new unified Sovereign Grant in place of the existing grants. Like the current system of support, the new grant will not meet The Queen's personal expenses.
- 6.** The new Sovereign Grant is to be linked to the net income surplus (or profit) of the Crown Estate. The Crown Estate is the property of the Sovereign "in right of the Crown", though its revenue is surrendered to the Exchequer in return for government support. This exchange has been made on the accession of each sovereign since George III in 1760.
- 7.** The Sovereign Grant is to be paid each year through the Treasury Estimate. The Comptroller and Auditor General (or C&AG, who is the government's external, "public auditor") will audit the Royal Household's use of the grant, which will be open to full Parliamentary scrutiny. In short, the Sovereign Grant will be treated like other government grants.
- 8.** The Sovereign Grant will normally be set equal to 15% of the net income surplus (profit) of the Crown Estate for two years before. The Sovereign Grant is to be determined through a formula (set out in *clause 6*). However, the Crown Estate will continue to pay its annual income surpluses in full into the Consolidated Fund. That is, the Sovereign Grant will not directly hypothecate a share of Crown Estate revenue.
- 9.** Any Sovereign Grant unused in a given year will go into a Reserve Fund. *Clause 6* gives the Royal Trustees (a body corporate established by section 10 of the Civil List Act 1952, whose members are the Prime Minister, the Chancellor of the Exchequer and the Keeper of the Privy Purse) a duty when setting the grant to seek to prevent the reserve rising beyond about half of the amount of the annual net relevant resources used by the Royal Household. The Royal Trustees could do this by reducing the grant in that year.
- 10.** The Trustees will also periodically review the percentage used in the formula for calculating the Sovereign Grant and recommend change if they see fit. The Treasury will implement the Trustees' recommendations through orders which will, where the percentage is increased, require the approval of the House of Commons.
- 11.** The Sovereign Grant will resemble other government grants in a number of important ways: it will be paid through Estimates authorised by Parliament annually; its accounts will be published; they will be audited by the public auditor (the Comptroller and Auditor General) and subject to Parliamentary scrutiny, including by the Committee of Public Accounts.

BACKGROUND

12. The Royal Household publishes a substantial amount of information about its official business and management of its financial arrangements. Material is also available online at: www.royal.gov.uk.

13. Readers may also find it useful to consult the following documents:

- Select Committee on The Civil List, Session 1971-72, 22nd November 1971, HC 29
- Royal Public Finances Annual Reports, 2003-04 to 2010-11
- Report of the Royal Trustees, 22nd June 2010, HC 140
- Maintaining the Royal Palaces – Twenty-fourth Report of Session 2008-09, Public Accounts Committee, 2nd June 2009, HC 201
- Royal Travel by Air and Rail – Sixtieth Report of Session 2001-02, Public Accounts Committee, 17th July 2002, HC 529

14. This Bill provides support for the Sovereign’s official duties. Her private income is not the subject of the Bill. That private income includes the income of the Duchy of Lancaster, a private trust managed to provide for future monarchs, which flows into the Privy Purse. The Prince of Wales, as Duke of Cornwall, receives the income of the Duchy of Cornwall, the capital of which is also held in trust to support future Dukes.

15. Information about the two Duchies may be found at :

www.duchyoflancaster.com

www.duchyofcornwall.org

16. The Queen and the Prince pay income tax voluntarily on their private incomes. The policy on taxation of The Queen and Prince is explained in the Report of the Royal Trustees, and the accompanying Memorandum of Understanding on Royal Taxation, 11th February 1993, HC 464.

17. The Crown Estate’s role is defined by statute through the Crown Estate Act 1961. The Act places a duty on the Crown Estate Commissioners to “maintain and enhance its value and the return obtained from it, but with due regard to the requirements of good management”.

18. The Crown Estate’s land and property is held “in right of the Crown”, but all the revenues it raises, around £210 million in 2009-10, is passed directly to the Exchequer for the

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benefit of all UK citizens. The Crown Estate is not the Sovereign's private property or that of the government. The Estate dates back to the reign of Edward the Confessor (reigned 1042 to 1066). Its net revenues are part of the hereditary revenues of the Crown. On his accession in 1760, George III surrendered these revenues (but not ownership of the capital assets) to the Exchequer in return for the civil list. Every subsequent monarch has done likewise.

OVERVIEW OF THE BILL'S STRUCTURE AND SUMMARY

19. The Bill has 17 clauses and 2 schedules. The clauses fall under two headings: "The Sovereign Grant" and "Supplementary and General".

The Sovereign Grant

20. *Clauses 1 to 8* set out the arrangements for a Sovereign Grant to be paid by the Treasury. It is to be determined as a percentage of the income account net surplus of the Crown Estate. A new Reserve Fund is being set up to cater for under-spends or over-spends in Sovereign Grant in any year. The clauses provide how the grant is to be set by the Royal Trustees and how it is to be accounted for. The accounts of the grant and the Reserve Fund are subject to audit by the Comptroller and Auditor General. There are to be regular reviews by the Royal Trustees of whether the percentage of the Crown Estate remains appropriate. If not, the Treasury must lay an Order before the House of Commons to implement an increase or decrease in that percentage.

21. *Clause 9* provides for a reduction in the Sovereign Grant when the income of the Duchy of Cornwall is vested in the Sovereign. This occurs when there is no Duke of Cornwall. There is a new duty to provide a grant based on the amount of Duchy income to heirs to the throne who are not Dukes of Cornwall so that all heirs are entitled to similar financial support. The Sovereign Grant is also reduced where the Duke of Cornwall is under 18 - the Bill provides in these circumstances for a share of Duchy income to be at the disposal of Her Majesty.

Supplementary and general

22. *Clauses 10 to 15* contain supplementary and general provisions relating to the repeal of the civil list and the creation of a single grant to support the Sovereign, the abolition of certain grants to certain other members of the Royal Household, the meaning of certain terms used in the Bill and the commencement arrangements. The first Sovereign Grant is payable for financial year 2012-13.

23. *Clause 16* provides that the Sovereign Grant will cease six months after the monarch's death (as the civil list does) unless an Order in Council is made within six months of a new reign.

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24. *Schedule 1* contains minor and consequential amendments and repeals. *Schedule 2* contains transitional provisions and savings.

TERRITORIAL EXTENT

25. This Bill extends to the whole of the United Kingdom.

26. This Bill does not contain any provisions falling within the terms of the Sewel Convention. Because the Sewel Convention provides that Westminster will not normally legislate with regard to devolved matters in Scotland without the consent of the Scottish Parliament, if there are amendments relating to such matters which trigger the Convention, the consent of the Scottish Parliament will be sought for them.

COMMENTARY ON CLAUSES AND SCHEDULES

The Sovereign Grant

Clause 1: The Sovereign Grant

27. This clause defines the new grant and introduces the formula in *clause 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 *clause 13* which contains provisions about the meaning of references in the Bill 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 *clause 6*.

32. *Subsection (5)* indicates that the amount of grant set in accordance with *subsections (3) and (4)* can be affected by *clause 9* (that is, in circumstances where income from the Duchy of Cornwall is received by the Sovereign).

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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.

Clause 2: Accounts of the Royal Household

34. This clause 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.

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 *clause 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 *clause 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.

Clause 3: The Reserve Fund

41. This clause 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.

Clause 4: Accounts of the Reserve Fund

49. This clause provides for the accounts and audit of the Reserve Fund. As with the accounts of the Royal Household (*clause 2*), the Treasury sets the form of the accounts and the Comptroller and Auditor General audits them.

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- 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.

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

- 56.** This clause 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 *clause 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 (*clause 2*); the Reserve Fund (*clause 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.

Clause 6: Determination of the amount of Sovereign Grant

- 60.** This clause 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)*.

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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.

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.

Clause 7: Review by Royal Trustees of Sovereign Grant

65. This clause requires the Royal Trustees to consider at fixed intervals whether the percentage in *clause 6(1)* remains appropriate.

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66. Under *subsection (1)*, the Royal Trustees must review whether the percentage set out in Step 1 of *clause 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. The first review must take place as soon as practicable after the end of the period of 4 years beginning with 1st April 2012 (that is, after 1st April 2016). Thereafter a review is required after the end of every subsequent 5 year period.

Clause 8: Power to change level of Sovereign Grant

70. This clause applies if the Royal Trustees' review calls for a different percentage to be used in the formula in *clause 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 *clause 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.

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

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

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 clause 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.

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75. When Duchy revenues are vested in Her Majesty, the clause 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 *clause 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 *clauses 2(7)(b) and 11* of the Bill where the amount of the Sovereign Grant has been reduced under *clause 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.

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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 clause, and to pay the grant under this clause, 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 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.

Supplementary and general

Clause 10: Repeal of certain financial provisions

86. This clause repeals certain financial provisions in the Civil List Acts of 1952, 1972 and 1975.

87. The following provisions are repealed by this clause.

- Section 4 of the Civil List Act 1952, which makes provision for Her Majesty's younger children.
- Section 6 of the Civil List Act 1952, which makes provision for the widow of the Duke of Cornwall.
- Section 2(8) of the Civil List Act 1972, which makes provision for certain widows of other members of the Royal Family.
- Section 3 of the Civil List Act 1972, which makes provision for the official expenses of members of the Royal Family who are not otherwise provided for from the civil list.
- Section 6 of the Civil List Act 1972, which makes provision for increasing the civil list, the payments to certain other members of the Royal Family and the total cost of honorific pensions.
- The Civil List Act 1975, which makes provision for payments to supplement the civil list, payments to members of the Royal Family (including those not otherwise provided for) and honorific pensions and for those supplements to be paid out of money provided by Parliament.

Clause 11: Maintenance of Royal Palaces and related land

88. This clause removes the responsibility of the Secretary of State to maintain the Royal Palaces and related land that are in future maintained by Her Majesty out of the Sovereign Grant.

89. The following Royal Palaces are currently maintained by the Royal Household using grant-in-aid from the Department for Culture, Media and Sport's Estimate: Buckingham Palace; St James's Palace, Clarence House and Marlborough House Mews; the residential and office areas of Kensington Palace; the Royal Mews and Royal Paddocks at Hampton Court; and Windsor Castle and buildings in the Home and Great Parks at Windsor. They are usually referred to as the "Occupied Royal Palaces". Her Majesty (through the Royal Household) is to maintain them out of the Sovereign Grant. For more information on the Occupied Royal Palaces, see the annual reports of Royal Public Finances mentioned in paragraph 13.

Clause 12: Meaning of "the audited net relevant resources", "the value of the Reserve Fund" and "the income account net surplus of the Crown Estate"

90. This clause explains the meaning of certain terms used in the Bill.

91. *Subsection (1)* explains that "audited net relevant resources" used is the amount of net relevant resources used as stated in the audited Royal Household accounts. The term "the value of the Reserve Fund" means the statement of the value of the Reserve Fund in the audited accounts of that Fund. The meaning of "the income account net surplus of the Crown Estate" is the amount of that surplus in the Crown Estate's audited accounts (which is also the amount the Crown Estate pays into the Exchequer each year).

92. *Subsections (2) and (3)* provide that if the audit reports for the above accounts contain qualifications, however expressed, that might affect any of the amounts or values specified in *subsection (1)*, the Comptroller and Auditor General must specify amounts or values to be used instead for the calculations required by the Bill.

Clause 13: Other interpretative provisions etc

93. This clause explains various terms used in the Bill.

94. *Subsection (2)* provides that "The Comptroller" means the Comptroller and Auditor General.

95. *Subsection (3)* provides that "financial year" means a year beginning with 1 April.

96. *Subsection (4)* provides that "the financial year 2012-13" means the financial year beginning with 1 April 2012.

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- 97.** *Subsection (5)* provides that “the Keeper” means the Keeper of the Privy Purse.
- 98.** *Subsection (6)* provides that “the Reserve Fund” means the Fund established under *clause 3*.
- 99.** *Subsection (7)* defines “the Royal Trustees” as the body corporate established by section 10 of the Civil List Act 1952. The members of that body are the Prime Minister, the Chancellor of the Exchequer and the Keeper of the Privy Purse.
- 100.** *Subsection (8)* provides that references to the support of the Sovereign’s official duties includes maintenance of royal palaces and related land.
- 101.** *Subsection (9)* limits the meaning of the Royal Household in the Bill to the Household’s activities in support of the Sovereign’s official duties.
- 102.** *Subsection (10)* defines the use of resources as meaning their expenditure, consumption or reduction in value. That is the same as in section 27 of the Government Resources and Accounts Act 2000 which applies to the resource accounts of government departments.

Clause 14: Minor and consequential amendments and repeals

- 103.** This clause introduces *Schedule 1* which contains minor and consequential amendments and repeals.

Clause 15: Commencement, transitional provisions and savings

- 104.** This clause provides that the Act will come into force on 1 April 2012. It also introduces *Schedule 2* which provides for certain transitional arrangements and savings.

Clause 16: Duration of Sovereign Grant provisions etc

- 105.** The long-standing convention is for the civil list settlement of each sovereign (including the monarch’s surrender of the hereditary revenues) to last for 6 months after the end of his or her reign. This process allows time to prepare provision for the next sovereign. *Subsection (1)* repeats this traditional approach.
- 106.** *Subsections (3) and (4)* provide an alternative approach. On the demise of the monarch, his or her successor will need continuing support arrangements. *Subsection (3)* therefore allows a new Sovereign to agree to extending the Sovereign Grant provisions, and so to continuing the payment of the hereditary revenues as directed in section 1 of the Civil List Act 1952, for the duration of his or her reign plus 6 months. The Sovereign signifies that agreement, with the advice of the Privy Council, by an Order in Council. The Order has no

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parliamentary procedure. It must be made within 6 months of the death of the previous sovereign. If no Order is made, the Sovereign Grant provisions will expire six months after the end of the previous monarch's reign.

107. *Subsection (4)* amends section 1(1) of the Civil List Act 1952 to create a link to *clause 1*. Since 1760, each successive monarch has agreed to exchange the hereditary revenues of the Crown at the start of their reign in return for financial support from the Consolidated Fund. The amendment links the surrender of the hereditary revenues with the duration of the Sovereign Grant.

108. *Subsection (5)* provides that the provisions for honorific pensions paid under section 5 of the Civil List Act 1837 have permanent effect.

109. *Subsection (6)* provides that pensions paid under the Civil List Act 1837 are to be charged on and paid out of the Consolidated Fund.

Schedule1: Minor and Consequential Amendments and Repeals

110. This Schedule contains various tidying and consequential provisions, including a number of repeals.

Civil List Audit Act 1816

111. *Paragraph 1* repeals the Civil List Audit Act 1816. Under that Act the Treasury appointed an auditor for the civil list. Provision is made under *clauses 2 and 4* of the Bill for the public auditor, the Comptroller and Auditor General, to audit both Royal Household resources used for Her Majesty's official business and the Reserve Fund.

Civil List Act 1837

112. *Paragraphs 2 to 4* amend sections 5 and 6 of the Civil List Act 1837 to make permanent the current position that honorific pensions are no longer paid from the civil list.

113. *Paragraph 5* omits section 14 of that Act because it is spent.

Crown Lands Act 1936

114. *Paragraph 6* amends the Crown Lands Act 1936 to insert a reference to 'section 1 of the Sovereign Grant Act 2011' so that the powers in question remain contingent on the continued surrender of hereditary revenues by the Sovereign.

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Civil List Act 1937

115. This Act is repealed by *paragraph 7* because none of its provisions are required any more.

Consolidated Fund (Civil List Provisions) Act 1951

116. This Act is repealed by *paragraph 8* because it has no effect.

Civil List Act 1952

117. The Civil List Act 1952 is amended to take account of provisions in the Bill.

118. *Paragraph 10* omits section 2 of the Act which is superseded by the abolition of the civil list and the new provisions in *clause 9* of the Bill.

119. *Paragraph 11* omits section 5 of the Act as that section ceased to have effect on the death of HRH the Princess Margaret.

120. *Paragraph 12* extends section 7 of the Act to allow for retirement allowances granted by a future monarch in respect of a person who has been a member of the Royal Household.

121. *Paragraph 13* updates the provisions for charging payments on the Consolidated Fund to remove civil list payments that are being ended.

122. *Paragraph 14* alters the constitution of the Royal Trustees in section 10 of the Civil List Act 1952 to recognise that the functions of the Royal Trustees are not limited to functions under that Act.

123. *Paragraph 15* omits section 11 of that Act as it is no longer needed.

124. *Paragraph 16* omits references to the civil list in section 12 of that Act because the civil list is being abolished.

125. *Paragraph 17* removes references to honorific pensions ending six months after the end of a reign. *Clause 16(5)* in the Bill provides that the provisions relating to honorific pensions, paid under sections 5 of the Civil List Act 1837, will have permanent effect.

Forestry Act 1967

126. *Paragraph 18* updates a reference to the Civil List Act 1952 in the Forestry Act 1967 to ensure that the compensation arrangements mentioned there remain contingent on the ending of the surrender of hereditary revenues by the Sovereign.

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Family Law Reform Act 1969

127. *Paragraphs 19 to 21* amend the Family Law Reform Act 1969 to omit references to the Duke of Cornwall and other of Her Majesty's children. The meaning of the minority of a Duke of Cornwall is covered by *clause 9* of the Bill.

Civil List Act 1972

128. *Paragraphs 22 to 28* amend the Civil List Act 1972.

129. *Paragraph 23* omits section 1 of the Act in its entirety. The civil list is being replaced by the Sovereign Grant in *clause 1*.

130. *Paragraph 24* omits provisions which are either superseded by provisions in the Bill or are spent.

131. *Paragraph 25* omits the second sentence of section 4(1) of that Act which relates to civil list pensions. It removes a power to increase the additional annual cost of such pensions from the limit set out in section 5 of the Civil List Act 1837.

132. *Paragraph 26* omits section 5 of that Act. This Bill replaces the civil list with a Sovereign Grant so the Royal Trustees will no longer need to report on the civil list arrangements.

133. *Paragraph 27* omits section 7 of that Act which is spent because no payments will be made under the Act.

134. *Paragraph 28* omits interpretational and transitional provisions that are no longer needed.

House of Commons Disqualification Act 1975

135. *Paragraph 29* removes the entry of the Auditor of the Civil List from the list of offices that are disqualified from membership of the House of Commons. That office is abolished by *paragraph 1* of this Schedule.

Northern Ireland Assembly Disqualification Act 1975

136. *Paragraph 30* removes the entry of the Auditor of the Civil List from the list of offices that are disqualified from membership of the Northern Ireland Assembly. That office is abolished by *paragraph 1* of this Schedule.

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Employment Rights Act 1996

137. *Paragraph 31* substitutes ‘the Sovereign Grant’ for ‘the Queen’s Civil List’ in section 171(3) of that Act.

State Pension Credit Act 2002

138. *Paragraph 32* provides that pensions provided under section 5 of the Civil List Act 1837 or section 7 of the Civil List Act 1952 are included as retirement pension income for the purposes of the State Pension Credit Act 2002.

State Pension Credit Act (Northern Ireland) 2002

139. *Paragraph 33* provides that pensions provided under section 5 of the Civil List Act 1837 or section 7 of the Civil List Act 1952 are included as retirement pension income for the purposes of the State Pension Credit Act (Northern Ireland) 2002.

Schedule 2: Transitional provisions and savings

Application of certain accounting provisions

140. *Paragraph 1* applies the accounts provisions in *clauses 2 and 4* from the financial year 2012-13 onwards, i.e. from the start of the Sovereign Grant.

Determination of Sovereign Grant for the financial year 2013-14

141. *Paragraph 2* provides transitional arrangements for the first year in which the formula for Sovereign Grant in *clause 6* is to apply, which is 2013-14.

Payments under Civil List Acts

142. *Paragraph 3* makes transitional provisions for the civil list, which is paid by calendar year. The civil list is to continue for the first three months of 2012 until financial year 2012-13 begins on 1st April 2012. The saving here allows adjustments to be made to payments made in respect of those three months after the repeal of the civil list provisions.

Savings for audit of the Queen’s Civil List

143. *Paragraph 4* ensures that the audit powers for the civil list continue until all the audit duties for the civil list have been completed, including after the Civil List Audit Act 1816 has been repealed on 1st April 2012 by the Bill.

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144. *Paragraph 5* provides that the disqualifications under the House of Commons Disqualification Act 1975 and the Northern Ireland Assembly Disqualification Act 1975 remain in force until all the duties of the Auditor of the Civil List have been completed.

Functions under section 1 of the Civil List Act 1972

145. *Paragraph 6* provides that sections 1(3) to (7) of the 1972 Act (which allow adjustments between the civil list and the civil list reserve) continue to have effect until any necessary adjustments have been completed.

146. *Paragraph 7* provides that any property held by the Royal Trustees will form part of the new Reserve Fund.

Savings for amendments made by virtue of section 6 of the Civil List Act 1972

147. *Paragraph 8* provides that amendments to section 5 of the Civil List Act 1837 and section 3 of the Civil List Act 1952 remain in force.

FINANCIAL EFFECTS OF THE BILL

148. The Bill replaces four separate grants with a single Sovereign Grant. The financial effect is initially neutral because the grants will be static for the next two years. However, the Sovereign Grant could increase as a result of increased net income from the Crown Estate revenues, because the grant is based on a percentage of that profit. But there are safeguards in the arrangements to mitigate the effect of large surpluses. The Royal Trustees have a duty to ensure that the Sovereign Grant is reduced when the Reserve Fund reaches around 50% of the grant.

149. Where a Treasury grant falls to be made under *clause 9* to an heir to the throne who is not also Duke of Cornwall, the amount of that grant is an increase in expenditure. That is because under the present arrangements the civil list is abated to take account of Duchy revenues when they are at the Queen's disposal. Under the new arrangements, although an abatement will be applied to the Sovereign Grant, an equivalent sum will be paid out as a Treasury grant. The cost to public funds would therefore be the same as if the Sovereign Grant had not been abated.

150. The Comptroller and Auditor General takes on new audit responsibilities for the Sovereign Grant and the Reserve Fund each year. He also acquires the power to carry out value for money examinations though how often that power is exercised is at his discretion. The total increased expenditure each year as a result of these new responsibilities is not expected to be significant.

EFFECT ON PUBLIC SECTOR MANPOWER.

151. There is no effect on public sector manpower.

IMPACT ASSESSMENT

152. The Bill will impose no significant direct costs, benefits or risks on the private sector, public services or the third sector.

EUROPEAN CONVENTION ON HUMAN RIGHTS

153. Section 19 of the Human Rights Act 1998 requires the Minister in charge of a Bill in either House of Parliament to make a statement before Second Reading about the compatibility of the provisions of the Bill with the Convention rights (as defined by section 1 of that Act).

154. The following paragraphs deal with the Convention rights issues raised by the Bill.

155. It is considered that only *clause 10*, which repeals a number of existing financial provisions for members of the Royal Family, gives rise to any Convention rights issues. The repealed provisions include provisions in respect of royal widows under section 6 of the Civil List Act 1952 (annual payment of £60,000 for the widow of the Duke of Cornwall) and section 2(8) of the Civil List Act 1952 (annual payment of £20,000 to widows of the Queen's other sons). They also include the repeal of provisions for other members of the Royal Family under section 4 of the Civil List Act 1952 (annual payments for the Queen's younger children) and section 3 of the Civil List Act 1972 (annual payment of £636,000 for other working royals).

156. Removing the right to receive these financial payments could engage Article 1 of Protocol 1 of the Convention for the Protection of Human Rights and Fundamental Freedoms ("the Convention") which protects property. The government considers that their removal is either not covered by the Convention or would be consistent with it. The payments are made in recognition of the official duties of members of the Royal Family acting on the Queen's behalf and the expenses they incur in that capacity. It is considered that in that capacity the Crown has a governmental character so that the Queen and members of her family would not be able to rely on Convention rights in the exercise of their official duties. If that is wrong, the payments are nevertheless considered to fall outside the protection of Article 1, Protocol 1 because that provision does not include a right to acquire property for which there is no current entitlement or right that would be assertable under domestic law (*Stec v United Kingdom (2005)*). If that is wrong, and it is necessary to justify the deprivation or interference with property, it is considered that removing the payments would be capable of being justified as provided for by law, in the public interest and proportionate. There is a broad public interest in simplifying state payments in support of the Royal Family and making them

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subject to the same parliamentary oversight and accountability arrangements as other public spending. Moreover, the Queen assumed the financial burden of paying these entitlements in 1993 when she started reimbursing the Consolidated Fund from her Privy Purse for them. That arrangement was voluntary but described as intended to be permanent in the Report of the Royal Trustees (5th February 1993). Therefore it is considered full compensation is provided which on the case law of the Convention is likely to make the measure proportionate.

157. Lord Sassoon, Commercial Secretary to the Treasury, the Minister in charge of the Bill, has made the following statement of compatibility in accordance with section 19:

“In my view the provisions of the Sovereign Grant Bill are compatible with the Convention rights.”

COMMENCEMENT

158. The provisions of the Bill come into force on 1st April 2012.

SOVEREIGN GRANT BILL

EXPLANATORY NOTES

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*Order to be Printed,
14th July 2011*

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LONDON: THE STATIONERY OFFICE

Printed in the United Kingdom by
The Stationery Office Limited

£x.00