



House of Commons  
Committee of Public Accounts

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# The accounts of the Duchies of Cornwall and Lancaster

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**Nineteenth Report of  
Session 2004–05**

*Report, together with formal minutes,  
oral and written evidence*

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## The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

### Membership

Mr Edward Leigh MP (*Conservative, Gainsborough*) (Chairman)  
Mr Richard Allan MP (*Liberal Democrat, Sheffield Hallam*)  
Mr Richard Bacon MP (*Conservative, South Norfolk*)  
Mrs Angela Browning MP (*Conservative, Tiverton and Honiton*)  
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Rt Hon Alan Williams MP (*Labour, Swansea West*)

### Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

### Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Emma Sawyer (Committee Assistant), Ronnie Jefferson (Secretary), and Luke Robinson (Media Officer).

### Contacts

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# Contents

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<b>Report</b>	<i>Page</i>
<b>Summary</b>	<b>3</b>
<b>Conclusions and recommendations</b>	<b>5</b>
<b>1 Management and governance</b>	<b>7</b>
<b>2 The clarity of the Duchies' accounts</b>	<b>11</b>
<b>Formal minutes</b>	<b>13</b>
<b>Witnesses</b>	<b>15</b>
<b>List of written evidence</b>	<b>15</b>
<b>List of Reports from the Committee of Public Accounts Session 2004–05</b>	<b>16</b>



## Summary

The Duchy of Lancaster and the Duchy of Cornwall are landed estates whose annual surpluses provide an income for Her Majesty The Queen and His Royal Highness The Prince of Wales<sup>1</sup> respectively (**Figure 1**). The capital assets of the Duchies are held in trust and The Prince of Wales and The Queen do not have access to them, though The Prince of Wales plays an active role in the management of the Duchy of Cornwall. The Duchies are not responsible for the use made of the surpluses by The Royal Household and the Prince of Wales's Household.

**Figure 1: The Duchies in brief**

	<b>The Duchy of Cornwall</b>	<b>The Duchy of Lancaster</b>
History	Created by charter in 1337 when Edward III created his son the Duke of Cornwall. The Duchy provides the Heir Apparent with an income independent of the Sovereign or the State.	Since 1399 the Duchy has passed to each reigning Monarch to provide a source of income. The Duchy was incorporated by charter in 1461.
Size of landed estate at 31 March 2004	56,229 hectares, comprising primarily agricultural, commercial and residential property.	18,916 hectares, comprising primarily agricultural, commercial and residential property.
Location of estate	Spread across 15 counties – just over half of the estate is in Devon, with large holdings also in Cornwall, Somerset and Herefordshire.	Spread across 11 counties – over a third of the estate is in Yorkshire, with large holdings also in Lancashire and Staffordshire.
Net revenue surplus generated in 2003–04	£11.9 million	£8.3 million
Total capital value at 31 March 2004	£463.1 million	£267.8 million
Average number of employees during 2003–04	73	18

*Source: The Report and Financial Statements of the Duchy of Cornwall for the year ended 31 March 2004; The Report and Accounts of the Duchy of Lancaster for the year ended 31 March 2004*

Under the Duchy of Cornwall and Duchy of Lancaster Act 1838, the accounts of both Duchies are required to be presented to Parliament and they are therefore available for scrutiny by the Committee of Public Accounts. The Treasury has a statutory responsibility to direct the form of the Duchies' accounts and, in respect of the Duchy of Cornwall, its approval is required for major capital transactions.

<sup>1</sup> Prince Charles became the 24<sup>th</sup> Duke of Cornwall on The Queen's accession in 1952, and received the title of The Prince of Wales in 1958

The Committee's examination was not based on a Report from the Comptroller and Auditor General, as the Comptroller and Auditor General does not audit the accounts of the Duchies and does not have access to the underlying books and records. The Committee therefore based its examination on the accounts presented to Parliament by the Duchies and an exchange of correspondence during 2004 between the Chairman of the Committee and the Duchies,<sup>2</sup> focusing on matters relating to management and governance, and the clarity of the accounts.

## Conclusions and recommendations

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The Duchies play an historic and important role in supporting the Households of The Queen and The Prince of Wales. They have both enjoyed substantial financial growth in both capital and revenue in recent years but there are ways in which they might work more effectively and be brought up to date.

1. **The direct involvement of The Prince of Wales in the management of the Duchy of Cornwall creates a potential conflict between the interests of the current beneficiary and those of future beneficiaries.** The Duchy should:
  - modify the governance arrangements so that, as with the Duchy of Lancaster, the beneficiary has no direct role in the management of the Duchy.
  - introduce openness into the appointment of Members to the Prince's Council, which oversees the management of the Duchy. A process in line with the principles for public appointments would help to ensure that appointments are made on merit and command public confidence.
2. **The role of the Treasury should be made clear in the Duchy of Cornwall's accounts.** The Treasury approves proposals for major capital transactions, but its criteria for doing so could be clearer and more transparent, as could the extent to which the Treasury exercises any general oversight to ensure the Duchy is being managed well.
3. **The role of the Chancellor of the Duchy of Lancaster should be made clearer.** The Chancellor has revocably delegated certain functions relating to the management of the Duchy to the Council. The Duchy's accounts should say what functions the Chancellor has delegated and what functions he retains.
4. **To assist Parliament in its scrutiny, the Comptroller and Auditor General should have full access to the accounts of the Duchies.** The Duchies' accounts are required to be presented to Parliament, and it is anomalous that they are not audited by the Comptroller and Auditor General. Parliamentary scrutiny and accountability would be more effective if the Comptroller and Auditor General were to be the auditor of the Duchies, or at least to have access to their books and records.
5. **The Treasury should amend its Accounts Directions so that the Duchies have to follow public sector good practice and thereby comply with the same disclosure requirements as most other accounts presented to Parliament.** For example the Duchies should be required to provide more information on their investment portfolios and the remuneration of individual senior managers and Council members.
6. **The Duchies' accounts should be made clearer and more transparent.** It would assist readers of the accounts, including Parliament, for the Duchies to provide more information and explanation. For example:
  - the Duchies should set out their accounting policies in areas which directly affect the level of the surpluses payable to The Queen and The Prince of Wales, such as

the recharging of costs from revenue to capital. Disclosing their accounting policies in this area would provide assurance that the Duchies are treating costs appropriately and consistently from year to year.

- the Duchies should say who conducts the valuations of their properties (both the external and internal valuers), and their qualifications.
  - where there is borrowing from the capital account for revenue purposes, the Duchies' accounts should set out the terms of the loan and the purpose for which it is required, and provide assurance that the money is not being used to inflate the revenue surplus payable.
  - in the case of the Duchy of Cornwall there should also be clarity about which assets belong to the Duchy and which belong to The Prince of Wales. The need for this clarity is illustrated by the Duchy's purchase of timber from The Prince. The timber had previously appeared as an asset on the Duchy's balance sheet.
  - the Duchy of Cornwall should provide a reconciliation between the figures shown in its accounts for the profit on disposal of investment properties, the proceeds received and the book value of the assets sold.
7. **The Duchies should include in their accounts details of the targets they have set and performance against them.** Such information would help Parliament and other readers of the accounts assess how the Duchies are performing. In addition to benchmarking their performance against other organisations, there is the opportunity for the Duchies to share good practice and learn lessons from each other.
  8. **The Duchies should report more information on their charitable and other activities, and the principles that underlie them.** The narrative section of the Duchy of Cornwall's accounts is a helpful supplement to the financial information and it would be useful for the Duchy of Lancaster to provide something similar.
  9. **The Duchies do not pay corporation tax or capital gains tax.** As the Duchies are trading entities, it would be useful for the Treasury to provide justification for the tax position of the Duchies, as distinct from that of The Queen and The Prince of Wales, and explain the impact of this favourable tax position on the Duchies' competitive position in the property and other markets in which they operate.
  10. **There should be an assessment of how well the surpluses of the two Duchies correspond to the respective needs of the Households of The Queen and The Prince of Wales.** The current arrangements stem from the fourteenth century, and the resulting income is to that extent an accident of history. After more than six hundred years, it would seem sensible for the Treasury to review whether these arrangements remain appropriate to present-day circumstances.

# 1 Management and governance

1. The annual accounts show that in the last five years the Duchies have achieved substantial financial growth. The revenue surplus of the Duchy of Cornwall has grown from £6.9 million to £11.9 million, an increase of 72%; and the surplus of the Duchy of Lancaster has risen by 44% from £5.8 million to £8.3 million (**Figure 2**). Over the same period, the capital value of the Duchy of Cornwall has grown by 50% and of the Duchy of Lancaster by 39%. The Duchies are not subject to corporation or capital gains tax.<sup>3</sup>

**Figure 2: Revenue surplus and capital value of the Duchies, 1999–2000 to 2003–04**

Year	Revenue surplus generated during the year (£ million)		Total capital value at year end (£ million)	
	Duchy of Cornwall	Duchy of Lancaster	Duchy of Cornwall	Duchy of Lancaster
2003–04	11.9	8.3	463.1	267.8
2002–03	9.9	8.0	408.1	227.6
2001–02	7.8	7.7	356.8	220.9
2000–01	7.5	7.3	321.1	203.6
1999–2000	6.9	5.8	308.3	193.0

*Source: The Report and Financial Statements of the Duchy of Cornwall for 1999–2000 to 2003–04; The Report and Accounts of the Duchy of Lancaster for 1999–2000 to 2003–04*

2. The Duchies date from the fourteenth century and their size and the income they generate has evolved over the years. But when asked whether any assessment had been made of the relative income from each Duchy against the needs of their beneficiaries, the Treasury said that it did not consider it needed to take a view.<sup>4</sup>

3. There are three main reasons for the growth in the revenue surplus generated by the Duchy of Cornwall: in terms of its investment strategy, the Duchy has been switching from long held leases into commercial property; it has changed some of its accountancy practices; and it has controlled its costs better. Growth in the Duchy of Lancaster's surplus has been lower but also significant, and the Duchy considered it had consistently outperformed the industry benchmarks it used to assess the performance of its investment portfolio. But the two Duchies do not appear to benchmark against each other.<sup>5</sup>

4. The Duchies set targets for their financial performance, but these targets and performance against them are not set out in their annual accounts. At June 2004 the Duchy of Lancaster's target for capital value was to achieve growth of 1% above the retail prices index, measured over a three year period. The Duchy of Cornwall's aim is to grow its

3 Q 4

4 Qq 18–19

5 Qq 2, 48–49, 321–322

capital value by at least the rate of inflation, and performance against relevant benchmarks is also important.<sup>6</sup>

5. The Prince of Wales has delegated executive responsibility for the management of the Duchy of Cornwall to the Secretary and Keeper of the Records, the Senior Executive of the Duchy. The management of the Duchy operates under the overall guidance of the Prince's Council, a non-executive body (with the exception of the Secretary and Keeper of the Records) which provides advice to The Prince of Wales with regard to the management of the Duchy. The Duchy seeks to follow the Combined Code on corporate governance and has a number of sub-committees which sit between its executive management and the Prince's Council, including a finance and audit committee and a remuneration committee.<sup>7</sup>

6. The Prince of Wales plays an active role in the management of the Duchy. He chairs and appoints Members to the Prince's Council, approaching senior members of industry to give him advice on relevant areas such as finance, law, the environment and farming. In view of the Committee's interest in the scale of the growth in the surpluses paid to The Prince, we were surprised to learn that he issues directions about the management of the estate and has the right to determine the level of the income raised, providing the Duchy meets the requirements of the Treasury (see para 13 below). The Duchy did not consider there was any conflict of interest between The Prince being actively involved in management decisions and his being the current beneficiary of the surplus, and stressed the significant control that the Treasury has over the Duchy's affairs.<sup>8</sup>

7. The Duchy's investment decisions reflect the keen interest The Prince of Wales has in areas such as the built environment and environmental sustainability. For example, The Prince has had a strong influence on the Poundbury development in Dorset which departs from conventional types of housing development in terms of urban design and planning.<sup>9</sup>

8. Although The Prince of Wales has no access to the capital of the Duchy, with the approval of the Treasury, the Duchy's revenue account may on occasion borrow from capital. In 2003–04 loans of up to £1.2 million from the capital account for revenue purposes were allowed and in the event some £600,000 was borrowed. The money was used to help run the business and the capital account received interest in return for the loan. But the specific purpose of the loan and the terms were not specified in the Duchy's accounts.<sup>10</sup> It seems that the borrowing limit is being reduced with the approval of the Treasury and that the decision to do this was taken before we took evidence from the Duchies. The Committee values openness on the part of witnesses and considers that they could have been more helpful on this point.<sup>11</sup>

9. The Committee was interested in why, in 1998, the Duchy of Cornwall paid The Prince of Wales £2.3 million for timber which was growing on Duchy land, had appeared as an

6 Q 320; Ev 31

7 Q 135

8 Qq 6–7, 112, 117

9 Qq 209–212

10 Qq 25–26, 55

11 *ibid*

asset on the Duchy's balance sheet, and had been treated as a reserve to be distributable when the timber was cut. The Duchy explained that the cost of planting and maintaining the woodlands had previously been met from the Duchy's revenue account, which had reduced the surpluses The Prince had received. The Prince could have sold the timber to another party but the Duchy decided it should buy the timber as a capital investment, following an independent valuation.<sup>12</sup>

10. The Committee was also interested in the arrangements for The Prince of Wales's occupancy of Highgrove. The Duchy of Cornwall explained that it had purchased Highgrove and that The Prince pays a full market rent, assessed by two separate valuers. The present rent for Highgrove House and land is £336,000 a year. The Committee was surprised to learn that the rental income is credited to the Duchy's revenue account as this must mean that it contributes to the surplus and therefore effectively goes back to The Prince.<sup>13</sup>

11. The Duchy of Lancaster has a different form of governance from Cornwall. The Queen is not directly involved in the management of the Duchy, which is administered on behalf of the Sovereign by the Chancellor of the Duchy and the Clerk of the Council. The Chancellor is a Government Minister and his salary is not paid by the Duchy, although he is entitled to receive £2,000 a year from the Duchy. Certain functions, particularly those relating to asset management, have been revocably delegated by the Chancellor to the Council, but the accounts do not make clear what those functions are or what functions the Chancellor retains.<sup>14</sup>

12. Appointments to the Council of the Duchy of Lancaster are made by The Queen, on the advice of the Chancellor. The Duchy follows the good practice principles which apply for public appointments. Two recent vacancies were advertised on the Cabinet Office website and the Duchy employed an appointments specialist to produce a shortlist. Interviews were conducted by a panel (including a Treasury official acting as an independent member), who made a recommendation to the Chancellor, who then made a recommendation to The Queen. The Duchy explained that it was putting proposals to its Council for the adoption of elements of the Combined Code on corporate governance, including establishing an audit committee.<sup>15</sup>

13. One significant difference in the governance arrangements of the Duchies is the role the Treasury plays in respect of the Duchy of Cornwall. Under the Duchy of Cornwall Management Act 1982, Treasury approval is needed for major capital transactions. In considering proposals the Treasury takes account of three statutory criteria: it has to balance the interests of the current and future Dukes of Cornwall; consider the interests of people living in the vicinity who may be affected; and consider whether the proposal is conducive to the good management of the Duchy.<sup>16</sup>

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12 Qq 323–333; Ev 35

13 Q 297–300; Ev 35

14 Qq 154, 160, 184

15 Qq 15, 199–200, 218

16 Qq 115, 221

14. The external audit arrangements for the Duchies are that the accounts of the Duchy of Cornwall are audited by Mr Rodger Hughes, who is appointed by The Prince of Wales. Mr Hughes is a partner in PricewaterhouseCoopers LLP, who provide the resources to conduct the audit. The accounts of the Duchy of Lancaster are audited by Howarth Clarke Whitehill, who are appointed by the Council. In correspondence with the Duchies in 2004 and again when we questioned Duchy officials in February this year, we put it to the Duchies that it would be of assistance if the Comptroller and Auditor General could have access to their books and records. However, the Duchies considered that as private estates they should be able to choose their own auditors and were satisfied with the current arrangements, seeing no need for the Comptroller and Auditor General to have a role in the process.<sup>17</sup>

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17 Qq 116, 123, 201

## 2 The clarity of the Duchies' accounts

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15. Under the Duchy of Cornwall and Duchy of Lancaster Act 1838, the Duchies are required to prepare their accounts in accordance with the Accounts Directions given by the Treasury. They have to comply with generally accepted accounting practice in the United Kingdom but are not bound to meet the disclosure requirements for public sector organisations or publicly listed companies.<sup>18</sup>

16. For example, in line with Financial Reporting Standard 13,<sup>19</sup> public sector bodies are required to make various disclosures on the nature of and risks associated with their portfolios of investments, cash and loan balances. In the notes to its accounts, the Duchy of Lancaster gives some details about its investment portfolio (worth £57.8 million at 31 March 2004), breaking it down by type, such as equities and government securities. The Duchy of Cornwall provides only a total figure for its investments (£47.6 million at 31 March 2004) but confirmed that it would consider disclosing more information on this area in the future.<sup>20</sup>

17. Similarly, publicly listed companies and public sector organisations are required to disclose details of the remuneration of individually named senior managers and board members. In the notes to its accounts, the Duchy of Lancaster provides information about the payments made to individual members of its Council, although not those to managers other than the Clerk to the Council. The Duchy of Cornwall does not give details of the payments made to members of the Prince's Council or disclose the names of individuals within its salary bandings, and considered such information would not be of assistance to the readers of its accounts.<sup>21</sup>

18. The accounting policies of the Duchies have implications for the level of the revenue surpluses payable to The Queen and The Prince of Wales. Both Duchies take certain staff and development costs out of their revenue account and charge them to the capital account, which has the effect of increasing the surpluses payable by corresponding amounts. For example, in 2003–04 the Duchy of Lancaster recovered development costs of £419,000 from its capital account. Neither Duchy has set out its accounting policy in this area to explain how the amounts to be recharged are calculated and the Duchy of Lancaster considers that in its case the amounts concerned are too small to be worthy of a note.<sup>22</sup>

19. Both Duchies agreed, however, to provide in future years more details of who conducts their property valuations and their qualifications. The Duchy of Cornwall said that its estate (worth £428.1 million at 31 March 2004) was valued on a rotational basis – each year 20% of properties by number are valued by external valuers, and the remaining 80% by internal valuers, chartered surveyors who act under the direction of its professional

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18 Qq 82, 305

19 Financial Reporting Standard 13 sets out the disclosure requirements for derivatives and other financial instruments

20 Qq 10–13

21 Qq 138–140

22 Qq 17, 80–82

advisers. The Duchy of Lancaster explained that its freehold property (worth £198.6 million at 31 March 2004) was valued by chartered surveyors.<sup>23</sup>

20. Under generally accepted accounting practice, it would be usual for the profit on disposal of investment properties to reconcile to the difference between the proceeds received and the book value of the assets sold. In 2003–04 the Duchy of Cornwall received £29.5 million from the sale of investment properties. The book value of disposals was £20.6 million, leaving an apparent profit of £8.9 million. However, the profit figure shown in the Duchy's accounts was £7.0 million. The Duchy explained that it was not possible to reconcile these figures from the face of the accounts since some of the cash received was not recognised as sales as it related to deposits received for sales which would be recognised in future years.<sup>24</sup>

21. The disclosures required under Financial Reporting Standard 17<sup>25</sup> show that the pension schemes of both Duchies were in deficit at 31 March 2004, by £1.1 million for the Duchy of Lancaster and £637,000 in the case of the Duchy of Cornwall. Had the Treasury required the Duchies to adopt Financial Reporting Standard 17 in full in the year ending 31 March 2004 in line with the public sector, the deficits would have been recognised in their accounts and the surpluses payable to The Queen and The Prince of Wales would have been reduced accordingly.<sup>26</sup>

22. The Duchy of Cornwall expects to rectify the deficit on its pension scheme quickly and the Duchy of Lancaster has increased the contributions it is making and reported that the position in respect of the deficit is improving. The Duchy of Lancaster closed its final salary pension scheme to new entrants with effect from 6 February 2002 because of the volatility in the payments that had to be made into the fund, and now provides a money purchase scheme for new members of staff.<sup>27</sup>

23. The Duchy of Cornwall's annual accounts include a narrative section, running over several pages, which discusses the results for the year and future prospects, supplementing the financial information contained in the accounts. It also produces from time to time a Duchy Review, the last in 2002, covering matters of corporate social responsibility, but agreed it could do more to publicise its charitable and other activities. The Duchy aims to set an example by following high standards in terms of the environment and sustainability, but we might have felt more assured on this point if the Duchy had not refused to provide details of the properties in which it had invested.

24. The Duchy of Lancaster provides less narrative in its accounts but explained that it set out on its website more details of its activities, including work with tenants, and its commitment to sustainability.<sup>28</sup>

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23 Qq 227, 233–236, 310–312

24 Q 41

25 Financial Reporting Standard 17 sets out the requirements for accounting for retirement benefits

26 Qq 8–9, 93

27 Qq 14, 30, 93–94

28 Q 206

# Formal minutes

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**Wednesday 6 April 2005**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan

Mr Ian Davidson

Mrs Angela Browning

Mr Alan Williams

The Committee deliberated.

Draft Report (The Accounts of the Duchies of Cornwall and Lancaster), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 5 read and agreed to.

Paragraph 6 read, amended and agreed to.

Paragraph 7 read and agreed to.

Paragraph 8 read, amended and agreed to.

Paragraph 9 read and agreed to.

A paragraph—(Mr Alan Williams)—brought up, read the first and second time, and inserted (now paragraph 10).

Paragraphs 11 to 24 read and agreed to.

Conclusions and recommendations read, amended and agreed to.

Summary read and agreed to.

*Resolved*, That the Report, as amended, be the Nineteenth Report of the Committee to the House.

*Ordered*, That the Chairman do make the Report to the House.

*Ordered*, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

*Resolved*, That a copy of the answers received from the Duchy of Cornwall in response to questions from Mr Alan Williams be placed in the House of Commons Library for the use of Members and in the Record Office, House of Lords, for public inspection.—  
(*Mr Alan Williams.*)

[Adjourned.]

## Witnesses

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**Monday 7 February 2005**

*Page*

**Mr Bertie Ross, Mr Keith Willis**, Duchy of Cornwall, **Mr Paul Clarke** and **Mr Chris Adcock**, Duchy of Lancaster

Ev 1

## List of written evidence

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Correspondence between the Committee of Public Accounts and the Duchy of Cornwall	Ev 26
Correspondence between the Committee of Public Accounts and the Duchy of Lancaster	Ev 30
Response from the Duchy of Cornwall to supplementary questions submitted by Rt Hon Alan Williams MP	Ev 34

## List of Reports from the Committee of Public Accounts Session 2004–05

First Report	The management of sickness absence in the Prison Service	HC 146	( <i>Cm 6496</i> )
Second Report	Tackling cancer in England: saving more lives	HC 166	( <i>Cm 6496</i> )
Third Report	The BBC's investment in Freeview	HC 237	
Fourth Report	Improving the speed and quality of asylum decisions	HC 238	( <i>Cm 6496</i> )
Fifth Report	Excess Votes 2003–04	HC 310	( <i>N/A</i> )
Sixth Report	Excess Votes (Northern Ireland) 2003–04	HC 311	( <i>N/A</i> )
Seventh Report	Foreign and Commonwealth Office: Visa entry to the United Kingdom: the entry clearance operation	HC 312	( <i>Cm 6577</i> )
Eighth Report	Ministry of Defence: Battlefield Helicopters	HC 386	( <i>Cm 6577</i> )
Ninth Report	The Drug Treatment and Testing Order: early lessons	HC 403	( <i>Cm 6577</i> )
Tenth Report	Welfare to work: tackling the barriers to the employment of older people	HC 439	
Eleventh Report	Improving public transport in England through light rail	HC 440	
Twelfth Report	Helping farm businesses in England	HC 441	( <i>Cm 6579</i> )
Thirteenth Report	Ofgem: The Social Action Plan and the Energy Efficiency Commitment	HC 442	
Fourteenth Report	Department for International Development: responding to HIV/AIDS	HC 443	( <i>Cm 6579</i> )
Fifteenth Report	Managing risks to improve public services	HC 444	
Sixteenth Report	Department of Health: improving emergency care in England	HC 445	( <i>Cm 6579</i> )
Seventeenth Report	London Underground Public Private Partnerships	HC 446	( <i>Cm 6579</i> )
Eighteenth Report	Financial management of the European Union	HC 498	( <i>Cm 6579</i> )
Nineteenth Report	The accounts of the Duchies of Cornwall and Lancaster	HC 313	

The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

# Oral evidence

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## Taken before the Committee of Public Accounts

on Monday 7 February 2005

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan  
Mr Richard Bacon  
Mrs Angela Browning  
Mr Ian Davidson  
Mr Brian Jenkins

Jim Sheridan  
Mr Siôn Simon  
Mr Gerry Steinberg  
Mr Alan Williams

**Sir John Bourn**, Comptroller and Auditor General, and **Mr Keith Hawkswell**, Director National Audit Office, further examined.

**Mr Brian Glicksman CB**, Treasury Officer of Accounts, HM Treasury, further examined.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

#### The Accounts of the Duchies of Cornwall and Lancaster

*Witnesses:* **Mr Bertie Ross**, Secretary and Keeper of the Records, and **Mr Keith Willis**, Head of Finance, Duchy of Cornwall; **Mr Paul Clarke**, Chief Executive and Clerk of the Council, and **Mr Chris Adcock**, Chief Finance Officer, Duchy of Lancaster, examined.

**Q1 Chairman:** Good afternoon. This afternoon the Committee of Public Accounts is looking at the accounts of the Duchies of Cornwall and Lancaster. I think this is an historic occasion. The Duchy of Cornwall was created by Charter in 1337 when Edward III created his son the Duke of Cornwall, and the Duchy of Lancaster since 1399 has passed to each reigning monarch to provide a source of income. I think this is the probably the first time at which a parliamentary committee has examined the Duchies' accounts in this way. It is an unusual hearing for us, the Committee of Public Accounts, because it is not based on a report by the Comptroller and Auditor General. The Comptroller and Auditor General does not audit the Duchies' accounts and has no right of access to the underlying books and records. I should say that the longstanding policy of this Committee is that we think that he should have such access in order to inform Parliament. However, we make one step at a time. Parliament has been about this business since the 17th Century, so we continue to hope that we will get more and better access as the years pass. I should say, of course, the Duchies are not responsible for the use made of the surpluses by the Prince of Wales's Household and the Royal Household, and the accounts of the Duchies do not cover the financial affairs of the Households. In my questions I shall be looking to ask our witnesses about these accounts. We are joined today, from the Duchy of Cornwall, by Mr Bertie Ross, who is Secretary and Keeper of the Records, and Mr Keith Willis, who is Head of Finance, and from the Duchy of Lancaster by Mr Paul Clarke, who is the Chief Executive and Clerk of the Council, and Mr Chris Adcock, who is the Chief Finance Officer.

You are all very welcome at what I hope will be a fruitful occasion at which we can exchange information. Perhaps I can start by asking some questions of Mr Ross from the Duchy of Cornwall. Your revenue surplus has jumped from £6.9 million to £11.9 million over the last five years. Why has it done so and why is it not taxed?

**Mr Ross:** Good afternoon.

**Q2 Chairman:** Good afternoon.

**Mr Ross:** The reasons that it has grown are largely because of our investment strategy. We have been switching from long held leases into commercial property. That is one point of gain. Another one has been through the change of some accountancy practices. A third point has been the control of costs.

**Q3 Chairman:** Why is it not taxed?

**Mr Ross:** Tax is paid by the Prince of Wales on the revenue from the Duchy of Cornwall after costs are deducted.

**Q4 Chairman:** He pays it, I think, on a voluntary basis but it is not taxed in the same way as a plc would be taxed for corporation tax, is it?

**Mr Ross:** The Duchy of Cornwall, like the Duchy of Lancaster, is exempt from the taxes and the taxes that you are referring to are paid on a voluntary basis.

**Q5 Chairman:** Do you want to give us an explanation for that?

**Mr Ross:** These are matters of policy really. They are issues that have been looked into by the Memorandum of Understanding. They are points

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The Accounts of the Duchies of Cornwall and Lancaster

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that have been raised in a number of parliamentary debates about the taxation of the Queen and the Prince of Wales.

**Q6 Chairman:** All right, stop there, I do not think you are going to give us any more information. Thank you for that answer. Would you please look at page two of your accounts? It refers there to the Prince of Wales's directions about the management of the Duchy. The Prince of Wales, of course, is Chairman of the Prince's Council. Could there be a conflict of interest here with the risk of maximising income for the current beneficiary at the expense of future beneficiaries given that the Prince of Wales is both the Chairman of this Council and the principal beneficiary?

**Mr Ross:** The Prince of Wales is the owner of the income of the Duchy of Cornwall and to a large extent that income is at his direction, so the processes of the management of the estate are at the Prince of Wales's direction. The governance of the Duchy of Cornwall is very much controlled by the Treasury and I think that in this process of the hearing we will seek to point out the very considerable control that we think the Treasury has over the affairs of the Duchy of Cornwall.

**Q7 Chairman:** So you believe that there is no conflict of interest, that is your answer?

**Mr Ross:** I think there is no conflict of interest. I think the interests of the Prince of Wales are in line with our long and often quoted terms of reference which are to provide income for the Prince of Wales and to provide income for the future Dukes of Cornwall.

**Q8 Chairman:** You will be aware of Financial Reporting Standard 17. It concerns the treatment of retirement benefits in employers' accounts and requires that any pension assets or liabilities that rest with an employer are recognised in its accounts. You will be aware of that Financial Reporting Standard, and you will be aware that public sector best practice as set out by the Treasury would require the adoption of Financial Reporting Standard 17 in the year ending 31 March 2004. You are aware of that, are you? Why did you not adopt Financial Reporting Standard 17 this year when the effect of not doing so was to increase the surplus payable to the Prince of Wales by over £600,000?

**Mr Ross:** I am going to ask Mr Willis if he would be able to expand on this point for me. I think what you are referring to is a change in accountancy practices.

**Q9 Chairman:** Can you help us?

**Mr Willis:** I hope so. FRS17, which the Duchy does comply with, in accordance with the Companies Act and best practice—the Treasury directive at the rear of our accounts points to the Duchy following best practice and best company practice in relation to FRS17—is to disclose only, you do not have to comply with FRS17 through the accounts themselves.

**Q10 Chairman:** All right. Can I now ask you, please, to look at note 7 in your accounts which you can find on page 16. It shows the total figure of investments of £47.6 million as at 31 March 2004. Therefore, it is not possible for us, or for anybody else outside, to analyse the Duchy's investment strategy. If you look at the Duchy of Lancaster's accounts, that is note 13, you will see there a break down of investments by types, ie equities, government securities, et cetera. Why can you not provide us with more information?

**Mr Ross:** We provide you with the information by the assets that we own. We felt that was in line with the directives of accountancy presentation that we have been asked to follow by the Treasury.

**Q11 Chairman:** Have you seen note 13 in the Duchy of Lancaster's accounts?

**Mr Ross:** No.

**Q12 Chairman:** If you look at page 17 of the Duchy of Lancaster's accounts, and if you look at note 13, you will see it sets out there considerably more information available to readers of these accounts concerning the Duchy of Lancaster than concerning the Duchy of Cornwall where in your note 7 there is no information given at all.

**Mr Willis:** I think in the case of the Duchy of Cornwall, the Stock Exchange portfolio had a value of £47 million, ie roughly 10% of the Duchy's asset base, which is considerably less than the Duchy of Lancaster. I do take your point.

**Q13 Chairman:** Is it something you will consider anyway?

**Mr Willis:** We will consider it. We are aware of the requirements of FRS13 which applies to listed companies only but that would require more disclosure, so, yes, we will consider it.

**Q14 Chairman:** Can I now turn, please, to the Duchy of Lancaster. Why did you close your pension scheme to new entrants in 2002?

**Mr Clarke:** In fact, I joined the Duchy in 2000 and I was the first person who was not within the Duchy of Lancaster scheme. The view, along with a lot of other organisations, was that we would not continue with a final salary scheme because there was some volatility in the payments that had to be made into the fund. What we do now is we provide a money purchase scheme for new members of staff on the basis of 10% of their salary up to the age of 50 and then 13% of salary beyond.

**Q15 Chairman:** You will recall in our correspondence last year that I suggested, on behalf of the Committee, that you set up an audit committee. Have you yet done so?

**Mr Clarke:** We have been going through the combined code in some detail and since we last wrote we are about to put a paper to Council, in fact tomorrow, where we are hoping to adopt the code in relation to corporate governance in general and also with regard to, in particular, an audit

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**The Accounts of the Duchies of Cornwall and Lancaster**

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committee. Where we do not comply with the corporate governance we will explain and we hope to initiate that for the new financial year.

**Q16 Chairman:** Perhaps this is a question I can ask both of you, or one of you can answer this. The Duchies have occupied some of their own property rather than renting it out. How do you decide whether it is a good use of resources for the Duchies to occupy their own properties, thereby forgoing rental income?

**Mr Clarke:** In fact, we occupy very little property within our own portfolio. The only main building we have is 1 Lancaster Place, which was our office. We are in the process of refurbishing it at the moment. To that extent, due to the reduction in size, we are only taking about a floor and a half of that building and we are sub-letting the surplus space.

**Q17 Chairman:** Can I ask you a slightly technical question but I think it is quite important. A proportion of staff costs and certain development costs are taken out of the revenue account and charged to the capital account which increases the level of the surpluses payable to the Queen and the Prince of Wales. Why have you not set out your accounting policies in this area?

**Mr Adcock:** What I will say about that is that you are correct, we do recharge. Where time has been spent on capital projects we do recharge a work cost from income to capital. The amounts concerned are very small, between £100,000 and £200,000 per annum, and as such we have not considered that worthy of a note.

**Q18 Chairman:** Thank you very much. Finally, can I ask the Treasury, the Duchy of Cornwall particularly generates very significant revenue for the Prince of Wales and the Duchy of Lancaster generates significant revenue for the Queen. What I would like to know from the Treasury is whether any assessment is ever made as to how well the two Duchies, which generate these very different surpluses, support the relative needs of the Households of the Queen and the Prince of Wales? Have we set up the revenue in the right way? Are the Queen and the Prince of Wales getting the sort of income that they need or is this really an accident of history?

**Mr Glicksman:** No, Chairman, I do not think we have given that any consideration, certainly not in the recent past. I am not sure that we would consider it part of our function to do so in the context of the two Duchies. The two Duchies, as you say, were set up some considerable time ago to provide the income and how much they generate, as you say, is a matter of—

**Q19 Chairman:** It is an accident. They were set up in a certain way starting with Edward III and it may be that they are producing too much or too little for the needs of the Prince of Wales, for instance. It seems to me it would be quite sensible for the Treasury to make an assessment of this.

**Mr Glicksman:** I will give some consideration to your view, Chairman.<sup>1</sup>

**Chairman:** Thank you very much. Mr Williams.

**Q20 Mr Williams:** Mr Ross, I will be addressing my questions entirely to you because there is not time to do justice to two accounts. Since 1990 the 300% increase that the Prince has had in income is actually represented in bank terms as £82 million that he has received over that time, in addition to which he has received another £3 million stripped from the undistributable reserves, which I have raised before. Can you not understand that an average of £6 million a year for 14 years makes it look to the public as if the Prince is winning the Lottery every year?

**Mr Ross:** My duty in looking after the Duchy of Cornwall is to operate within the terms that apply within the legislation of the statutes. It is for me to provide the proper income from well managed estates. I think for me to comment on the sums of money is not relevant on this occasion.

**Q21 Mr Williams:** With respect, you have already brought a value judgment in because you said it is for you to decide what is a proper income, so you are involved, and you are involved at all levels on this. You live in such a closeted world that you take these things and all the privileges that go with it for granted, but for my constituents £11.9 million last year is an incomprehensible sum, it is just a set of numbers on a piece of paper. If I could put 450 of my constituents, all of whom earn the national average wage, into one hall, their collective incomes for the year would be precisely the same as the Prince's, the same as 450 of his subjects. Proper is a term that I think you may have to qualify at some time during our discussions. Do you not think that £11.9 million is getting a bit excessive? Should there not be some sort of ceiling?

**Mr Ross:** The point I was trying to make earlier on was a return on the assets of the Duchy of Cornwall. The accounts stated that the assets at the end of 2003–04 were £463 million. What we are addressing is what is the proper income that the Prince of Wales should receive from those estates. I think the subject of whether it is a large amount of money or not is not really my issue.

**Q22 Mr Williams:** But it is proper that he should receive £3 million more than the Queen?

**Mr Ross:** I think the point I would go on to make is that this is the result of the estate being well managed. I rather feel that I would be in a less comfortable position if we were appearing before you with an estate that had problems.

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<sup>1</sup> *Note by Witness:* Both Duchies are established under their own charters, and the assets of each Duchy are held in trust to generate an income for their respective beneficiaries. As noted at the hearing, the size of each Duchy, and hence the income they can generate, reflects their individual development over hundreds of years. Both Duchies are also managed to take account of the interests of their current and future beneficiaries. The Treasury does not consider it needs to take a view on the relative income from each against the needs of their beneficiaries.

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The Accounts of the Duchies of Cornwall and Lancaster

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**Q23 Mr Williams:** Okay. We are not getting anywhere here because you just do not understand how these sums of money are perceived. Of course, what is not taken into account is that, in addition to the £80 million, he has the best housing benefit scheme in the world: Clarence House, still part of Lambeth Palace; use of Windsor Castle. That is not bad as a side perk of the job, is it?

**Mr Ross:** Maybe if I can put it in the context of what the income is used for.

**Q24 Mr Williams:** I do not really need to know that at the moment, I will ask you when I want to know that, otherwise you will have to explain why it has risen from £3 million to £12 million and that will probably come up later in one of my colleague's questions. Can we move back to something that is puzzling me slightly about last year's report. The revenue side of your accounts borrowed £1.2 million from capital. Inevitably that boosted the money that was available to contribute to the surplus, did it not? Therefore, it made £1.2 million available for disbursement to the Prince which would not have been there otherwise. Why?

**Mr Ross:** I do not think it was for disbursement to the Prince.

**Q25 Mr Williams:** Effectively it is bound to be, is it not? You cannot have £1.2 million coming into revenue and it not affecting the amount that is available to the Prince because he has the net surplus from revenue.

**Mr Ross:** I will try to answer the question first and then I may get Mr Willis to tidy up if I have missed the point. This borrowing to put into the capital account is to enable us to carry out our responsibilities which are repairs, paying staff and things of those kinds. It is our duty to pay the Prince of Wales net of the costs that we incur.

**Q26 Mr Williams:** Yes, but it is the revenue.

**Mr Willis:** The £1.2 million you refer to, we did not borrow the £1.2 million, we could go up to a maximum of £1.2 million. Last year we probably borrowed £600,000, something like that. On the £600,000 borrowing, interest is charged on the borrowing and interest is charged to the revenue account, ie he receives less because of the borrowing.

**Q27 Mr Williams:** No, he does not.

**Mr Willis:** Yes, he does.

**Q28 Mr Williams:** He receives £600,000 more by definition. He would not have had that £600,000.

**Mr Ross:** It is not money that is distributed though.

**Q29 Mr Williams:** I have got bigger sums than that to look at. Before I go on to some of the bigger sums, the pension scheme has been in deficit for two years, has it not? If I read the accounts correctly, it is £637,000 in deficit. Why could you not have cut back on the surplus going to the Prince for that because he would still have had over £11 million?

**Mr Ross:** I think by comparison with many, many organisations—

**Q30 Mr Williams:** But you are not short of a bob or two.

**Mr Ross:** Our pension fund is in a very healthy situation. In fact, we were in credit. The recent actuarial evaluation we had carried out at the end of last year intimated that we were in credit. It was the introduction of the new FRS17 process of assessment that highlighted this shortfall. I think it is something that we will be able to rectify very, very quickly.

**Q31 Mr Williams:** The effect of both of those, the borrowing of £600,000 at 1.2 and the non-payment of £637,000, boosted the Prince's income by over £1.2 million together. Let us look at a strange situation that arose in 1998 when you really stretched your credit status when, according to note 14, you borrowed in that year £10 million at a staggering 10.48% loan stock repayable in 2014 at an interest rate of £1 million a year. What was that all about?

**Mr Ross:** Which year was that?

**Q32 Mr Williams:** In 1998.

**Mr Willis:** It was borrowed in 1989, the £10 million which you referred to.

**Mr Ross:** The point of your question it not altered. This is money which was borrowed, as we are fully entitled to do, under the terms of the Management Act.

**Q33 Mr Williams:** I did not say you were not entitled to.

**Mr Ross:** It was with the purpose of taking forward our investment strategy. I think it was a good commercial decision by judgment in hindsight.

**Q34 Mr Williams:** Rather strangely, I have trouble sleeping, but I keep a stock of all the Duchy of Cornwall accounts alongside the bed just in case. The other evening I came across this one from 1999, which coincides, of course, coincidentally, with the information in 1998, which I also have alongside the bed. In this it says, in note 15, on page 16: "Repayments to capital. On 31 March 1999, the Duchy of Cornwall revenue account . . ." that is the account from which the Prince gets his money, ". . . had annual commitments to be paid in the capital account . . ." and he is not allowed capital, ". . . as follows: year ended 31 March 1998, £14 million; year ended 31 March 1999, £14 million". What were those figures all about and were they in any way related to the other £10 million we have just been talking about?

**Mr Willis:** No, they are not related to the £10 million. At that stage, repayments were made from the revenue account to capital in accordance with the figure you have outlined.

**Q35 Mr Williams:** What was the total sum which was due to be repaid? Was it the combined two years, £28 million, or what?

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**The Accounts of the Duchies of Cornwall and Lancaster**

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**Mr Willis:** Sorry, the £28 million you are referring to comes from—

**Q36 Mr Williams:** There was £14 million listed to be paid in 1998 and then £14,299,000 for 1999. It may mean the same money, but it is not easy to tell from the account. Is it just a mere £14 million or is it the £28 million debt?

**Mr Willis:** You are referring to the 1999 accounts?

**Q37 Mr Williams:** Yes.

**Mr Willis:** Which page number would that be?

**Q38 Mr Williams:** Page 16.

**Mr Willis:** At that stage, in 1999, the total commitment was £14.2 million.

**Q39 Mr Williams:** That is a lot of money, is it not?

**Mr Willis:** Indeed.

**Q40 Mr Williams:** The way in which you operate is the Prince does not have access to capital, that is laid down in the statute, yet here you have been farming out capital to the revenue account which decides the yearly amount of income the Prince has which, therefore, is giving him access to the capital account. Therefore, you have been in breach of the rules.

**Mr Willis:** There is no breach of the rules. It was in accordance with the conditions laid down in the Management Acts, that revenue repaid Council over the appropriate time period.

**Q41 Mr Williams:** I will leave it to my colleagues to follow up on that. There are so many questions, but I will come back to them later if they have not been asked. One final one, in 2003–04 you had a sale of investment properties and you received £29.4 million for them. The book value was £20.6, leaving a nice healthy profit—and I am not criticising that, that is your job—of £8.8 million. Somehow only £6.9 million found its way into the capital accounts. Where has the other £1.9 million gone?

**Mr Willis:** You are comparing those cash figures against accrual accounting figures. These accounts are done on an accruals basis. You cannot compare cash received against book value. Some of the cash received was not recognised as sales, it was deposits received for sales which would be recognised in future years.

**Q42 Mr Williams:** Sir John, the National Audit Office was briefed on this. Is what we have just heard correct? If it is correct, were the accounts sufficiently clear in what was represented by that £8.8 million? Still at the end of it, as a result of your answer, we do not know what happened to the other £1.9 million.

**Mr Willis:** There is none missing.

**Q43 Mr Williams:** Where it is?

**Mr Willis:** You are comparing two different things.

**Q44 Mr Williams:** I am comparing money with money.

**Mr Willis:** No, you are comparing cash against accrual accounting. One is a cash flow and the other is a balance sheet and profit and loss.

**Sir John Bourn:** The account given by Mr Willis is correct in terms of accountancy. I think there is a point which I might ask my colleague to enlarge on, the question of whether the accounts might be prepared in a clearer way?

**Mr Hawkswell:** It was not crystal clear from the face of the accounts.

**Q45 Mr Williams:** It should have been though, should it not?

**Mr Hawkswell:** It was difficult to work through.

**Mr Williams:** If it is difficult for the National Audit Office to work through it, what hope will humble Members of Parliament or the public have when they query it? I think the case is there to be answered and you have not answered it. I still do not know where the £1.9 million is, but perhaps we will find out eventually.

**Q46 Chairman:** Can you try and make the accounts more clear in the future?

**Mr Ross:** As far as our accounts are concerned, they are dealt with by direction with the Treasury. We are very positive in our attitude about this. We meet them on a basis of every other month. We discuss these things and, certainly, we would be happy to go back and talk about the points you raised with the Treasury after this meeting.

**Q47 Chairman:** You just heard the comment of the National Audit Office that it is difficult to work through.

**Mr Ross:** Absolutely.

**Q48 Mr Steinberg:** Mr Ross, you said the estates are well managed. Mr Clarke, how do you know they are well managed because you work from a very privileged position of not having to pay tax, you are cushioned. How do you know they are well and efficiently managed?

**Mr Clarke:** We run a number of benchmarks against the performance of our portfolio and that starts with a composite benchmark which is broken down and marries in with our various investments. Also, we measure each individual part of the portfolio against standard industry benchmarks.

**Q49 Mr Steinberg:** Where do you come out in that?

**Mr Clarke:** We have consistently out-performed; we are better than the benchmark.

**Q50 Mr Steinberg:** Incidentally, how do you get on the committee which runs these organisations? It looks like a job for the boys, is it?

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The Accounts of the Duchies of Cornwall and Lancaster

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**Mr Clarke:** Do you mean the Council?

**Q51 Mr Steinberg:** Yes.

**Mr Clarke:** The Council is appointed much the same as any other organisation. In fact, we have just appointed two new Council members. That was done through advertising on the Cabinet Office website.

**Q52 Mr Steinberg:** Excellent, because I am retiring at the end of this Parliament and my services will be open for negotiation, particularly if they are on the expenses which I see the Duke of Westminster gets.

**Mr Clarke:** The Duke of Westminster is not on our Council.

**Q53 Mr Steinberg:** No, he is on Mr Ross's.

**Mr Clarke:** He is indeed.

**Q54 Mr Steinberg:** If you would like to have a word after the meeting? The revenue services are increasing, are they not, year by year and year by year, and they are substantially increasing, Mr Ross, in the Duchy of Cornwall. Tell me, on page 23 of the accounts—Mr Williams has mentioned this—you sought approval to borrow, as he said, £1.2 million from the capital accounts for revenue purposes. When I was on the Council and Leader of Durham City, we fiddled as well, it was called creative accountancy. If we wanted to get some money from one area to another area—which you were not supposed to do—we creatively accounted so we could use that money. This looks very much like jiggery pokery to me, it looks as though you have been doing a bit of fiddling, have you not?

**Mr Ross:** I do not see it that way at all. If I look at it with my hat on protecting the capital account—

**Q55 Mr Steinberg:** The Prince of Wales cannot touch the capital account, but he can touch revenue. If we put the capital into the revenue?

**Mr Ross:** The capital account is being paid interest for a loan which is then used to run the business.

**Q56 Mr Steinberg:** Sorry, can you say that again?

**Mr Ross:** The capital account is charging interest to the revenue account for the use of the money for the facility that is there.

**Q57 Mr Steinberg:** The revenue account is substantially increasing each year and the capital account fell from £29.5 million to £2.8 million in a period of four years, is that right? That is what the report seems to indicate.

**Mr Ross:** I do not know those figures. Our capital account has grown very substantially since we have started.

**Q58 Mr Steinberg:** The surplus in the capital account, according to the report as I read it, fell from £29.5 million to £2.8 million in four years. Yet you are still lending from the capital surplus, which was decreasing considerably, to the revenue surplus, which was increasing substantially. I

cannot understand that. As I say, I am not an auditor or an accountant but that seems peculiar to me, why would you be doing that?

**Mr Willis:** Again, they are not figures I recognise. The capital account has increased significantly over the last X number of years, an increase of £180 million in the last five years.

**Mr Ross:** The capital account has gone up by 65% since we have been measuring it and publishing the results of our capital accounts.

**Q59 Mr Steinberg:** I will ask you another question. Is the capital cash being systematically transferred to the revenue account?

**Mr Ross:** No, not in my opinion. We draw a very clear line between the capital—

**Q60 Mr Steinberg:** It seems to me the National Audit Office has got it wrong then, because from the information which I have sort of read from the National Audit Office, they appear to be insinuating that is happening. Perhaps the National Audit Office can inform us? Am I right or wrong?

**Mr Hawkswell:** The position is the capital account cash balance, it is not the entire capital account value, it is the level of cash in the capital account which fell from £29.5 million in 2000 to £2.8 million in 2004.

**Q61 Mr Steinberg:** That is what I said.

**Mr Willis:** You are looking only at the capital cash balance which, indeed, has fallen through that period due to property acquisitions. That is agreed.

**Q62 Mr Steinberg:** My question is if it has fallen considerably, you said it did not—

**Mr Willis:** No, the capital value of the Duchy—

**Q63 Mr Steinberg:** No, I was not talking about that, obviously you were not listening because I said the surplus capital account, the cash, I did not say anything about the total capital value. What I am saying is if the surplus cash is decreasing from £29.5 million to £2.8 million, why are you borrowing from that to the revenue account?

**Mr Willis:** First of all, the £29.5 million, which you referred to, was a one-off peak in capital cash terms before a major acquisition took place within the following few months. That £29.5 million is very untypical of capital accounts.

**Q64 Mr Steinberg:** What was it used for?

**Mr Willis:** The £29.5 million?

**Q65 Mr Steinberg:** Yes, the capital cash.

**Mr Willis:** To buy an agricultural estate.

**Q66 Mr Steinberg:** How much is being transferred to the revenue account which the Prince has access to?

**Mr Willis:** How much capital has been transferred to the revenue account?

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**The Accounts of the Duchies of Cornwall and Lancaster**

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**Q67 Mr Steinberg:** Yes, how much capital cash?

**Mr Willis:** As I mentioned before, it is only one point. It may borrow—and I stress borrow—in the region of £600,000.

**Q68 Mr Steinberg:** Okay. Both your organisations seem to me to have no transparency at all, you look at them and you could be looking at double Dutch, unless you have someone to look at them for you who really understands accounts. I think Mr Williams has made this point. The daily accounts show that in 2002–03, £300,000 of development work was just written off, but it does not say what it was written off for and why. Why was it written off?

**Mr Ross:** This was a cost to the revenue account. This was directly a deduction from the surplus which the Prince of Wales would have received. The reason being was if we had moved ahead with this particular development project, it would have added to the capital assets. Once we had got planning permission, or whatever the circumstances were, it would have added to the capital value of that particular project. Because the project has not progressed at the rate and way we thought it should, we felt the right process was to charge this to the revenue account. It was a step taken to increase the surplus to the Prince of Wales.

**Q69 Mr Steinberg:** The Prince of Wales can, in fact, use the whole of the surplus of the revenue account?

**Mr Ross:** No.

**Q70 Mr Steinberg:** Explain what he can use?

**Mr Ross:** The total revenue in these accounts is something in the order of £16 million. From that the normal running costs of the business are deducted.

**Q71 Mr Steinberg:** I do not think you listen, I said the surplus. Presumably all the expenses have been taking off. The surplus, what is left at the end of the year, the profit, if you like, on the revenue account, that all goes to the Prince of Wales?

**Mr Ross:** That is exactly the purpose which we exist for.

**Q72 Mr Steinberg:** How much is that on an average per year?

**Mr Ross:** Last year it was £11.9 million.

**Q73 Mr Steinberg:** What can he use that £11.9 million for?

**Mr Ross:** It is private income. It is entirely at his discretion what he wants to use it for. The point I want to make is he does use it for his official duties and private purposes. I would like to make a small point about those official duties because, again, the sum of the money is well used. It is to support the Queen, charitable enterprises and national and traditional excellence. He is paying something in the order of £3.2 million worth of salaries alone for those purposes out of his own private income. The charity generates in the order of £100 million a

year. This is a figure which is not in the statement and not realised. He is the biggest multipurpose charitable enterprise in the country.

**Q74 Mr Steinberg:** Let me ask another question. I read also in the report that you are now starting to use—and you can say it comes out of the revenue account—capital cash to pay staff costs, is that right?

**Mr Ross:** Correct.

**Q75 Mr Steinberg:** If you are using capital cash to pay staff costs, it means you are not using the revenue cash, which means that allows the Prince to have extra money through the back door.

**Mr Ross:** This is very much in accordance with accountancy best practice.

**Q76 Mr Steinberg:** You mean the creative accounting which I mentioned earlier.

**Mr Ross:** These are two clear distinctions. We do a lot of work on the capital account which is buying, selling and improving. Those charges are charged legitimately and in accordance with best practice to the capital account.

**Q77 Mr Steinberg:** My time is up, but I will ask you one more question. I saw this but I did not know whether I read it correctly. Is it right that anybody who dies in Cornwall, intestate, the Prince inherits?

**Mr Ross:** This is one of the traditional things we have inherited.

**Q78 Mr Steinberg:** This is a yes or no answer.

**Mr Ross:** No. The answer is it goes to the Prince of Wales and he puts it into a benevolent fund.

**Q79 Mr Steinberg:** What is that used for?

**Mr Ross:** It is a charity. It is used for education, religion, et cetera. We try to focus it back into the area from which it has come.

**Q80 Chairman:** Just summing that up. We have got a situation where you are increasing the revenue surplus, are you not, by charging the staff development cost to capital, you accept that?

**Mr Ross:** Yes.

**Q81 Chairman:** What is being suggested to you is you have not got a clear policy and there is scope—I am sure it does not happen—for these costs to be treated inappropriately. Would you accept that?

**Mr Ross:** I do not think so. If you can tell me more?

**Q82 Chairman:** There is scope. Why do you not set out your accounting policies more clearly and in more detail so you can convince committees like this, indeed, that is not happening because you are a highly reputable organisation?

**Mr Ross:** We go a long way. We think the information we provide is good. This is in line with corporate account publication. We have an auditor of national reputation. It is then submitted to our

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The Accounts of the Duchies of Cornwall and Lancaster

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own audit committee and after that it goes through the Treasury who have the right to direct any way in terms in which our accounts are presented.

**Q83 Jim Sheridan:** Can I ask either or both representatives has either or both estates received any funding whatsoever from EU farm subsidies?

**Mr Clarke:** As far as Lancaster is concerned, we do not farm any land in hand. All our farms are let, therefore any new subsidies are a matter between the tenant and the authorities. We do not receive any of the subsidies direct.

**Q84 Jim Sheridan:** Neither estate receives any subsidies?

**Mr Clarke:** I am speaking for Lancaster.

**Mr Ross:** In the same way, the single farm payments are received by our tenants.

**Q85 Jim Sheridan:** Just to clarify. Neither estate receives any money whatsoever from the EU in terms of farm subsidies?

**Mr Clarke:** In terms of the single farm payment, no.

**Q86 Jim Sheridan:** I have asked a perfectly straightforward question.

**Mr Ross:** It is a matter of how you express it.

**Q87 Jim Sheridan:** I tell you how I express it. We have people in the Third World dying of starvation, we have the richest land owner in this country receiving EU farm subsidies and I am asking a perfectly straightforward question, how much?

**Mr Ross:** We let these businesses. We let all the farms to tenants. The tenants are individual farmers who have the right to run their business. This is the terms of the Agricultural Holdings Act. Those tenants are the people who are drawing down these single farm payments.

**Q88 Jim Sheridan:** It seems to me you are refusing to answer my question, if either or both estates are receiving farm subsidies?

**Mr Ross:** It does indirectly go to the tenant. You are right in the sense that it is on Duchy land, but it goes to the tenants.

**Q89 Jim Sheridan:** You do get EU farm subsidies?

**Mr Ross:** Not directly.

**Q90 Jim Sheridan:** Indirectly?

**Mr Ross:** If the tenant is carrying out business on our land and they receive a rent, and that is deemed to be indirect, the answer would be yes.

**Q91 Jim Sheridan:** Have you any idea how much that is?

**Mr Ross:** I am afraid we do not know because we do not know the details of all the farmers' profit and loss accounts.

**Q92 Jim Sheridan:** On the question of Clarence House, which has just been refurbished at a cost, I estimate something like £9 million. Did the Duchy meet any of the costs of this refurbishment?

**Mr Ross:** This is outside our area of remit completely. We hand over the surplus to the Prince of Wales and his office. The matter of how the money is spent and accounted for is not Duchy business.

**Q93 Jim Sheridan:** Going back to the point which Mr Steinberg raised about the pension fund, £1.1 million deficit in the pension fund. Would it not be right and proper to ask Her Majesty to fund this deficit from the surplus?

**Mr Clarke:** At the present time we are paying money into the pension scheme and that does come out of the surplus.

**Q94 Jim Sheridan:** How much is that?

**Mr Clarke:** At the moment we are paying £143,000 a year. We have increased the contribution to 16.3% for all members of staff within the scheme. On the deficit, on an MFR basis, we are now at 93% which is over the 90% threshold we have to achieve in 10 years and we have achieved that in three years.

**Q95 Jim Sheridan:** Mr Ross, can I ask the question about this £300,000 of development work which was written off during 2002 and 2003. Can you account for why that happened?

**Mr Ross:** This was a project we were taking forward with the costs being incurred on professional advice, legal advice and those sorts of issues. We decided the prospect of this particular scheme progressing in the reasonably near future was not sufficiently good for it to be held in our books, so we have written it off against the revenue account. It has been deducted from the surplus.

**Q96 Jim Sheridan:** I am glad that is within your remit. Again, can I say, there was a significant difference in terms of staff costs. According to this report, one of the estates has paid something like £57,000, and the other one, something like £32,000. What kind of people do you employ that deserve these kinds of wages? Why is there such a difference in the gap?

**Mr Adcock:** Can I pick up on that question. I think the £57,000 you mentioned is the Duchy of Lancaster. That £57,000 is inclusive of pension contributions, which, as Paul Clarke stated, have been inflated in 2004 because we were making additional payments, totalling £60,000, to catch up the deficits. In addition to that, the way we calculate the average salary is fairly crude, which is taken at the beginning of closing balances, which can be misleading in the timing of people beginning and starting within the year. I can say that average salary is not £57,000, it is £33,600 over the 14 people within the Duchy of Lancaster.

**Q97 Jim Sheridan:** What are the skills required for these people?

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**The Accounts of the Duchies of Cornwall and Lancaster**

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**Mr Adcock:** The people are split into three main areas: head office staff, survey staff and other costs, which are magistracy, shrievalty and other special costs. The head office staff is mainly finance: myself, two others, the chief executive and his secretary. Our skills are ultimately dependent on the roles we are carrying out. The survey staff skills obviously are dependent on their skills, but they are mainly surveyors.

**Mr Clarke:** Because we are a small team we have a high proportion of qualified professional people. Within that survey office and survey staff, you have got two qualified chartered surveyors and two secretaries in support, plus estate workers. Whereas, at head office, I am a chartered surveyor, Mr Adcock is a chartered accountant and we have a bookkeeper accountant. There is a fairly high degree of qualified people within that group.

**Q98 Jim Sheridan:** Mr Ross, I see that certain Duchy properties are used by the Prince of Wales Office and for staff living accommodation. Can you tell me how these properties are allocated and how the rents are determined?

**Mr Ross:** They are occupied and rented out under the appropriate legislation with the full open market rent being paid.

**Q99 Jim Sheridan:** What does that mean?

**Mr Ross:** The Duchy of Cornwall owns the properties and we let them to the staff.

**Q100 Jim Sheridan:** What criteria do you use to let them?

**Mr Ross:** The open market rent.

**Q101 Jim Sheridan:** Anyone can apply?

**Mr Ross:** Those particular houses are occupied, but as far as other properties we have are concerned, they are advertised on a regular basis.

**Q102 Jim Sheridan:** Can anyone apply to be allocated one of these properties?

**Mr Ross:** In fact, as these houses become empty we will sell them.

**Q103 Jim Sheridan:** That is not the question I asked you.

**Mr Ross:** Can anyone apply? There is no opportunity to apply because they are not vacant.

**Q104 Jim Sheridan:** If they do become vacant you will be selling them anyway?

**Mr Ross:** It is the rent which is the determining factor that they should be let on the open market. There are other houses on the same road which I am sure would be available to rent.

**Q105 Jim Sheridan:** I asked you the question about the criteria for those who wish to apply or be allocated one of these properties. As I understand it, like you say, when they become vacant they will be sold. You do not have any vacant houses just now?

**Mr Ross:** I think the ones you are particularly referring to are the ones which are occupied by members of the staff. The other houses we have to let we do let on the open market in almost every case, which are open to anyone to apply to move into.

**Q106 Jim Sheridan:** How are the rents determined?

**Mr Ross:** By the open market.

**Q107 Jim Sheridan:** Again, your accounts refer to three substantial property acquisitions in 2003–04. Can you give us some details about that?

**Mr Ross:** Our strategy has been to invest in commercial property. We think it is our responsibility to produce a suitable return on the assets we have. However, a number of the assets are very low producing either because they are long leases, residential properties, or whatever. These ones we bought were three commercial properties: one in Leeds, one in Dover, and, I think, one in Lancashire.

**Q108 Jim Sheridan:** Given that there is a significant amount of taxpayers' money which goes towards both estates, and given the fact that in recent years many industries who did not receive the same kind of subsidies were then subsequently privatised, do you think either or both estates would survive as PLCs?

**Mr Clarke:** As far as Lancaster is concerned, we never really considered or have done any figures on what effect tax would have on it, but I am quite convinced that as a business it would survive.

**Mr Ross:** The business is extremely well run.

**Q109 Jim Sheridan:** Would it survive as a PLC with the taxpayers' money?

**Mr Ross:** At the moment we operate within the terms which are defined to us. That is speculation, but we are a good business.

**Q110 Jim Sheridan:** Both estates would survive as PLCs?

**Mr Ross:** I regard that as an academic question, we are not even a company, we would not be able to comment.

**Q111 Mr Simon:** Mr Ross, you said earlier, in a phrase which I thought strikingly melded the personal and corporate in a way which does not happen often when dealing with royalty, "He is the biggest multipurpose charitable enterprise in the country". A cynic would say: "Give any of us £12 million a year tax-free with no responsibilities except buying big cars and fretting about the environment and we could all be a significant multipurpose charitable institution". However, being no such cynic, my reaction was quite the opposite. I thought, "The biggest multipurpose charitable enterprise in the country, hell of a guy, I want a piece of that". I thought, "I want to do my bit". I decided, like Mr Steinburg, although more

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**The Accounts of the Duchies of Cornwall and Lancaster**

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seriously in my case and at the other end of my career, I would also like to be on the Prince's Council.

I would like to know how to go about it, please?

**Mr Ross:** We are in different areas. The charity side of his business is run by his office, not by the Duchy of Cornwall.

**Q112 Mr Simon:** Sorry, the Prince's Council, which is the non-executive board of 11, of which you are the one executive member, advises the Duchy on all its activities, is that not the case?

**Mr Ross:** Indeed, yes. We are not a company. The Prince's Council is purely advisory and at the moment these appointments are made by the Prince of Wales because he goes to senior members of industry to give him advice on the areas that he regards as particularly relevant to the Duchy of Cornwall. They cover finance, law, environment, Cornwall in particular, the tenant farmer and other such issues relating to our business.

**Q113 Mr Simon:** It is not akin to the non-executive board of a plc?

**Mr Ross:** It is not.

**Q114 Mr Simon:** It is more like a few of his mates?

**Mr Ross:** It is by appointment to the Prince of Wales. In every other respect we conform with the relevant requirements about appointing people. We advertise, we select people through a process of short list and interviews and so forth.

**Q115 Mr Simon:** In terms of governance, what does that mean? Where does the buck stop? Does it stop with you? Obviously it does not stop with his mates? Does it stop with you or with him?

**Mr Ross:** We are extremely positive about our governance. It is something we think is done well and structured in an effective way. The governance starts with our own internal committee procedures which meet regularly. It has members of the Prince's Council on it to ensure there is a suitable, if you like, non-executive input. We have an auditor. We have an audit committee. Eventually the control of the Treasury is very significant, it has complete power of veto over capital transactions if it feels they are not being done either for good commercial interests or in the best interest of the management of the estate.

**Q116 Mr Simon:** Given that you are so keen on governance—although it seems to me like a pretty rum kind of governance I have to say—and indeed pleased with your governance, why not introduce the same kind of voluntarism into your attitude to governance that has been so admirably displayed by the Prince in his attitude to tax? Was it 1994 when he took the enviable step of opting to pay income tax; not that he had to but he chose to, enviable and admirable? Why does the Duchy—not that you have to—not opt to be scrutinised by the National Audit Office because if you do not opt to

show the NAO your books, like everybody else gets to show their books, people will naturally conclude that you have something to hide?

**Mr Ross:** The Duchy of Cornwall's income is private to the Prince of Wales. I think that any estate or business that is private should be able to choose its own auditors. I am very satisfied that we have a balance of a nationally recognised good auditors looking after the private side and then we have the Treasury looking after the public side.

**Q117 Mr Simon:** Would you mind if I stop you there, just to go back to that bit where you say his income is private to the Prince of Wales. We accept that, well we do not accept that but, for the sake of this forum today, we will accept that once you hand over the £12 million cash which you have arbitrarily decided, with no scrutiny from anybody at all, is to be this year's tranche, once you hand it over then what he does with it is private, although we can see a certain amount of it. To say that his income is private when his income is derived from his capital is surely a rather meretricious not to say sophistic distinction. Is his capital private?

**Mr Ross:** The estate is owned by the Prince of Wales as a limited owner. It is a fine distinction but effectively he does not have access to the capital or the right to dispose of the capital. He has an absolute right to determine the income, as to whether it is high or low, providing we operate within the strict investment criteria that we have to satisfy in dealing with the Treasury.

**Q118 Mr Simon:** Is his capital private?

**Mr Ross:** No. The capital is not accessible to the Prince of Wales.

**Q119 Mr Simon:** It is not accessible to the Prince of Wales. It is accessible in the sense that he is able to determine how much of it is used and to generate what levels of revenue but the capital is not accessible. If the capital is not private then why can the National Audit Office of the United Kingdom of Great Britain and Northern Ireland not investigate, audit, assess, do that helpful and useful job that it does for everybody else? If you are so pleased with your governance, what have you got to hide? Why will you not let the NAO in to look at your books?

**Mr Ross:** Every transaction that we do is submitted to the Treasury. In a recent report which I received it was pointed out that the detail into which we are going has greatly increased. This is by agreement. We are very happy to provide that information to the Treasury.

**Q120 Mr Simon:** Can I pause you there for a moment again. Could I ask the Comptroller, Sir John, is that right? Are you happy or would you like to have a look at the books?

**Sir John Bourn:** I would like to have a look at the books.

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**The Accounts of the Duchies of Cornwall and Lancaster**

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**Q121 Mr Simon:** I thought you might. Do continue.

**Sir John Bourn:** I would just say that does not take away the value of what Mr Ross says he provides to the Treasury. The Treasury is part of executive government, my responsibility is to Parliament. If I look at the books I will be able to report to Parliament on those matters that I think should be drawn to Parliament's attention. That is the difference between my access and the access provided to the Treasury.

**Q122 Mr Simon:** Indeed, Mr Ross, it is about Parliament. Now, I think Sir John is in his office probably even more ancient—I took care to say his office—than very large other parts of the British Establishment, including most of the Royal Family. He is a fairly posh geezer, not as posh as the people on this list, a list packed with DLs, GCB, KL, every letter you can think of is on this list of the Prince's Council except the letters MP. Given that, we would like to have a look at your books, the Comptroller and Auditor General would, I think on behalf of the Queen. Do you work for the Queen, Sir John?

**Sir John Bourn:** In the sense that ultimately we all do, yes, but I am an officer of the House and my first loyalty goes to the House of Commons.

**Q123 Mr Simon:** We would very much like to have a look at the books. Given that you are so proud of your governance, given that you are dashing backwards and forwards from the Treasury every 20 minutes asking them to check on the latest thing, why not just let us have a look, let them have a look?

**Mr Ross:** I am satisfied with the arrangement we have with PriceWaterhouse auditing our books on the private side of the Prince of Wales's business and I do not see the difference between that and any other private business. It does the job and I am quite certain the National Audit Office would do the job just as well but this is a procedure which was set out for us to follow in the 1982 Management Act. I have not seen a strong enough reason yet to do it differently.

**Q124 Mr Simon:** My time is running out so I just want to go back to what it seems to me is the essence of this question about capital and revenue. I was not clear until I thought you said it a minute ago, it is entirely at the Prince's discretion how much revenue he wants for himself. If he says to you—because we know there is no point in him saying anything to the Prince's Council which is touted as some sort of piece of governance because it is just a gang of his mates—“What I would like you to do is maximise revenue this year. I do not want £12 million, I want £120 million next year.”, do you have a fiduciary responsibility to say “No, Sir, that would be irresponsible and a breach of our trust to future Duke's of Cornwall” or do you say “You want £120 million, you are the biggest multi-purpose charitable enterprise in the country, no doubt you know what to do with it, go for it, Sir”?

**Mr Ross:** We would not be able to do it. As soon as we entered the realms of damaging the capital account, our capital transactions I am quite certain—

**Q125 Mr Simon:** Every pound you take in revenue damages the capital account in some sense of opportunity cost. That is what every member of the Committee understands, it is what everybody out there understands and you and your colleagues are the only people who do not understand that there is a trade-off between capital and revenue. They do not exist independently, they trade off one from the other. If he wants to do down the capital in order to maximise revenue, what do you say?

**Mr Ross:** We would not get very far. The whole procedure would be shut down, I am almost certain, by the Treasury.

**Q126 Chairman:** In the Prince's Council are there discussions about these matters? We were asking you earlier in this Committee hearing about the fact that you charge staff development costs to capital. Would these matters be raised in the Prince's Council with him present?

**Mr Ross:** We look at our strategy and all the issues relevant to that strategy and the implementation of it.

**Q127 Chairman:** In the Prince's Council?

**Mr Ross:** In the Prince's Council.

**Q128 Chairman:** With him present?

**Mr Ross:** We have a finance committee which reports on all these matters to the Prince's Council and the Prince of Wales either sees the minutes or attends the meetings.

**Q129 Chairman:** Given the Prince of Wales can draw down revenue but not capital, do you think it is good practice for him to be taking part in discussions on this matter?

**Mr Ross:** I am still satisfied. All the documents I have ever read have said the control of the Treasury is sufficient to ensure that the capital account is protected. The capital account is protected if we grow it only by the rate of inflation. Our duty is to ensure an income for the present and the future Dukes. Over the last few years, and not as a result of the particular management you are looking at today but by the steps which have been taken by people over the last 20 or 30 years, our capital account has been performing way above any basic level we should be—

**Q130 Chairman:** I am not suggesting for a moment it is not and I would not suggest you are not a highly reputable and successful organisation, but what I asked you was a slightly different question. If you have a situation in which a beneficiary of an estate can draw down revenue but cannot touch capital, do you think it is entirely wise for him to be party to discussions on matters when transfers between capital and revenue are being discussed in the governing Council?

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The Accounts of the Duchies of Cornwall and Lancaster

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**Mr Ross:** The Prince of Wales is in a position to be able to decide on what disposals are made. That is his choice, but it is subject to Treasury approval so we cannot get into a situation where we were carrying out capital transactions which the Treasury felt were damaging to the estate. As I say, I think this is a system which works extremely well. The capital account is protected. If anything, and it may not be about governance, the particular characteristic of our current beneficiary is one where he puts in much more than he takes out in almost every activity he gets involved in.

**Chairman:** I am sure that is absolutely right, which is why I am sure you have nothing to fear from full transparency in front of Parliament.

**Q131 Mr Jenkins:** Mr Ross, I think the issue of concern to the Committee is not the fact that the present incumbent in any way is not totally concerned, committed and does an excellent job, it is whether the rules are in place to stop any future incumbent being able to misappropriate the way the system operates. When you look at the list, these obviously did not come out of newspaper advertisements, we can just look at the individuals on this list and see they are the friends of the Prince of Wales, albeit the Duke of Westminster is a large investor himself, has a large portfolio and knows what it is to operate property. You said that one of these on the list was a tenant farmer.

**Mr Ross:** He is not a tenant farmer of the Duchy of Cornwall, no. He is there as a representative of one of our major sections of business, so he is there, if you like, as a kind of independent watchdog.

**Q132 Mr Jenkins:** A pseudo tenant farmer? He is speaking on behalf of tenant farmers?

**Mr Ross:** He is on the Prince's Council very much as a free operator, yes. He has close contacts with very many of our tenants and articulates at the Prince's Council and at our other committees—the agricultural council—concerns about agriculture, concerns about agricultural holdings and concerns about our management.

**Q133 Mr Jenkins:** I wonder whether on this list the local community's interests are being looked after and taken on board?

**Mr Ross:** The area where we are recognised as having the most high profile, if you like, which does not make any difference to the management of the rest of the estate, is Cornwall, and we have a representative who sits on the Prince's Council to take into account the interests of the people of Cornwall.

**Q134 Mr Jenkins:** Is that a representative of the people of Cornwall? Is there a name for that person?

**Mr Ross:** He lives in Cornwall, he is a professional, he is a solicitor, he has land himself. He is Mr Coode.

**Q135 Mr Jenkins:** We still feel you could do better with a balance here, with an appointments system and with more of a structure which we are used to seeing today, where places are advertised, people are selected by an appointments panel and put on there to run it, but I take it you have a different approach. I want to go through one or two of the questions you answered to the Chairman. I have a list of the questions the Chairman asked you and the replies and I thought it was quite enlightening how you replied to him. I will read the answers to you. He asked you about Sir Robert Smith's Report, "Audit Committees—Combined Code Guidance" published in January 2003. You said, "The guidance is for limited companies. However, the Duchy has taken on board the recommendations where it is considered suitable for the Duchy's particular circumstances." That might be excellent but what in the code is not suitable for the Duchy's circumstances?

**Mr Ross:** First of all, we are not a company. That, I would have thought, was one of the most important points. We are more like a trust than a company but we do try to follow the code which has been set out in as many ways as we can, which is audit committees, remuneration committees, committee meetings, internal reporting procedures and all those things.

**Q136 Mr Jenkins:** So what you are saying is you cherry-pick. "We pick the bits we like, we do not pick the bits we do not like."

**Mr Ross:** The report says exactly that, that small companies are encouraged but, where they do not, they are not perceived to be breaking the code. I cannot find the exact wording but we do follow this quite carefully.

**Q137 Mr Jenkins:** I will go on to another answer then. "The Duchy is a risk-averse organisation. The impact of debtors and creditors on the risk profile is minimal. It is not considered that further information related to risk would be useful for the reader of the accounts." We are a committee which likes risk assessment; as a committee we like to see risk assessment, and I ask you why you thought any further information on risk would not be suitable for readers of the accounts?

**Mr Ross:** I may ask Mr Willis to elaborate on this, but the detail we give we have discussed with the Treasury. They have issued the directives and we feel that meets the purpose which we have been asked to fulfil under the Management Act. The point about the Management Act is that they looked at this whole subject of governance in great detail in 1982, it was debated at great length by various Houses and special committees, and the legislation which was passed satisfied the subject we are discussing at the moment.

**Q138 Mr Jenkins:** The next one you answered, "The Duchy does not consider it to be of assistance to the reader of the accounts to disclose the names of individuals within the salary bandings", so we

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**The Accounts of the Duchies of Cornwall and Lancaster**

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have salary bandings, we have numbers but no names. Why do you consider it inappropriate to name the individuals in the salary bandings?

**Mr Ross:** The only member of the Prince's Council who is an executive is myself. All the others are employees and I think the normal procedure is that this banding procedure is the appropriate method of disclosure.

**Q139 Mr Jenkins:** On page 15 of the report, it says that there are four on £40–£49,000, four on £50–£59,000, one on £60–£69,000, two on £80–£89,000, one on £120–£130,000 and one on £140–£150,000. I am not on about the sole member on the Council, I am wondering about the list of employees you have as a trust. Why are there no names for the people on this banding?

**Mr Willis:** We basically follow best practice, that is the practice for a non-listed company.

**Q140 Mr Jenkins:** The difficulty we have got here is we are what is called a public spending committee and we like to look at public monies. You like to look at this as a shrouded secret society whether it is a limited company or not. It is not even a limited company but some personal fiefdom you hold sway over. Why are the names of the individuals not there in the banding?

**Mr Willis:** In simple terms they are not there because we do not think it would add anything to the basic use of these accounts.

**Q141 Mr Jenkins:** Once again, we like accountability, we like openness, and we like transparency. To be honest, I am not particularly interested in what you think but I am interested in what the British people think. I am interested in what the shareholders think, what the people who have ultimate ownership of this territory think. What I am saying is if we put the information out there in the public domain there can be no misunderstanding of what we are asking and what we are seeking. It is the fact that when I see the answers, every single answer—I will read a few more out—appears to hide behind the regulations rather than give an open, transparent and accountable process. The next one “The amount of bad debts or debts written off on third party assets is immaterial and therefore considered to be little consequence and add little to the accounts”. Says who?

**Mr Ross:** The question is what effectively is material. I think that accountancy standards would suggest that might be something in the order of 5% of revenue, bad debts are less than 0.25% of revenue. They are not material.

**Q142 Mr Jenkins:** It is not the amount of the debt that I worry about, it is the attitude it is immaterial, so why should we bother? Why should we disclose anything on this? The next one: “The receipts for this do not pass through the revenue accounts as all the income is paid after expenses and after ex gratia payments to the Duke of Cornwall's Benevolent Fund. The balance due to the

Benevolent Fund is immaterial.” What are the ex gratia payments paid out of this money before it gets paid to the Benevolent Fund? What are the expenses before it gets paid to the Benevolent Fund? I thought it was all going directly into the Benevolent Fund.

**Mr Ross:** The receipts last year of our Benevolent Fund were £38,000 and the funds distributed were in the region of £71,000. It is a charity and this is information which will be available through the Charities Register if required.

**Q143 Mr Jenkins:** I just want to ask one thing, I noticed on the charity thing—there is lots more I could ask—the charity donations amounted to £98,000 from the Duchy, including £70,000 from these free gifts for people who died intestate. Then it goes on to say “Approximately 20% of the total grants were made to educational and agricultural charities and the other 80% went to variety of charities”. I just thought, is all this listed somewhere? Can we see these figures for these charities?

**Mr Ross:** The terms of our fund are the money goes to the relief of persons in need, provisions of homes of rest, hospitals and convalescent places, advancement of education, arts and religion.

**Q144 Mr Jenkins:** Will you answer the question please: is there a list of what amounts go to specific charities available to us in that?

**Mr Willis:** There is within the charity accounts, yes there is.

**Q145 Mr Jenkins:** There is?

**Mr Willis:** Within the Register of Charities. It complies with the charities disclosure and will list the major donations.

**Q146 Mr Bacon:** Perhaps I can pick up, Mr Willis, where you have just left off. You said within the charities accounts, you are saying if one was to look at the accounts for the Prince's Trust or for the Business in the Community or the Architecture Foundation, one would find there the recipients of particular donations, is that what you are saying?

**Mr Willis:** The registered charity that money over the counter is paid, there is a separate registered charity known as the Duke of Cornwall's Benevolent Fund, registered in its own name and that set of accounts will show all of the major donations which the charity has made.

**Q147 Mr Bacon:** I think, Mr Ross, you mentioned earlier, £3.2 million was paid on staff salaries and that is out of the surplus of £11.9 million, is that right?

**Mr Ross:** That is the information that I have, not because I am involved with it but because of the publication of the household accounts which are now produced every year by the Prince of Wales's office.

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The Accounts of the Duchies of Cornwall and Lancaster

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**Q148 Mr Bacon:** When I was first elected we were all invited to go—I do not know how many members did but certainly I did—and listen to a presentation on the various charitable activities that the Prince of Wales engages in. James Naughtie of the BBC did an introduction and in 90 minutes one got a very good snapshot of the various different activities that the Prince of Wales has, which was very helpful to me. Do you think that the Duchy does enough to publicise all those activities? I have not had anything since and that was three and a half years ago when we had the last explanation. I was very impressed with the explanation of what was going on but do you think you do enough?

**Mr Ross:** There is a divide here. There are two interests. One is the charities run by the Prince of Wales's office, which is effectively that document and other documents produced by the Foundation and others. The issue of the Duchy of Cornwall's corporate social responsibility—if I can call it that—is something we produce a Duchy Review on a from time to time basis. I think perhaps the answer is no to your question, I think we could do a great deal more.

**Q149 Mr Bacon:** Yes, I think you probably could. It is very interesting in the report to see what is happening in Poundbury and places like that. I was referring to the well known charities of the Prince of Wales but I take it—in the sense you are describing—they are not part of your responsibilities in the sense once the monies are passed over they cease to be your responsibility and the Prince of Wales then disburses them to charities or to his private income or whatever. Is that what you are saying?

**Mr Ross:** That is right, yes.

**Q150 Mr Bacon:** The £11.9, you mentioned the Prince of Wales voluntarily pays tax. What kind of tax, is that income tax?

**Mr Ross:** He pays tax on a voluntary basis in exactly the same way as any other taxpayer.

**Q151 Mr Bacon:** Presumably if he is giving money to charity that would be able to be offset against this £11.9 million?

**Mr Ross:** The Memorandum of Understanding defines the areas of cost that are incurred by the Prince of Wales which are not chargeable to tax.

**Q152 Mr Bacon:** Part of his official duties and so on?

**Mr Ross:** His official duties and charitable dealings.

**Q153 Mr Bacon:** Then the rest of it is subject to tax and has tax levied on it?

**Mr Ross:** Yes, the official duties represent something over 50% of his income, about 30% of his gross income is left available to the Prince of Wales for his private use.

**Q154 Mr Bacon:** Okay. Mr Clarke, I would like to ask you about the Duchy of Lancaster. On page 12 of the accounts it states that “The Chancellor of the Duchy of Lancaster, Mr Alexander for the period . . .” and there is just a line next to “basic salary and fees”. I take it that during the period Mr Alexander as Chancellor was not paid anything?

**Mr Clarke:** The Chancellor has the right to a sum of £2,000 a year and Mr Alexander, in this case, chose not to take it because I think it has an effect on his parliamentary salary.

**Q155 Mr Bacon:** He waived it.

**Mr Clarke:** He waived it.

**Q156 Mr Bacon:** He would have lost £2,000 from his parliamentary salary if he had taken it?

**Mr Clarke:** Absolutely.

**Q157 Mr Bacon:** Who is the Chancellor now?

**Mr Clarke:** Alan Milburn.

**Q158 Mr Bacon:** What does Mr Milburn get paid?

**Mr Clarke:** He does not wish to take the £2,000 either.

**Q159 Mr Bacon:** He does not take the £2,000 either?

**Mr Clarke:** No.

**Q160 Mr Bacon:** The salary that Mr Milburn is paid from public funds is not paid by the Duchy?

**Mr Clarke:** No.

**Q161 Mr Bacon:** Who is it paid by, the Treasury?

**Mr Clarke:** I do not know who pays. I have no idea.

**Q162 Mr Bacon:** Mr Glicksman, who pays Mr Milburn's salary if it is not the Duchy of Lancaster?

**Mr Glicksman:** I would guess it is paid—

**Q163 Mr Bacon:** You would guess?

**Mr Glicksman:**—from the same sources as all other ministerial salaries but I would have to check on that.

**Q164 Mr Bacon:** That is you, is it not, you are the Treasury?

**Mr Glicksman:** Yes, in the sense that the Treasury provides funds to departments for paying salaries.

**Q165 Mr Bacon:** You are saying he is paid a salary in the same way that the Secretary of State for Health or the Secretary of State for Education or whoever would be paid a salary?

**Mr Glicksman:** That is my guess but I would have to check to give you a definitive answer.<sup>2</sup>

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<sup>2</sup> Note by Witness: Mr Milburn's salary of £57,485, as a Member of Parliament, is paid by the House of Commons. His salary of £72,862, as Minister and Member of Cabinet is paid by the Cabinet Office.

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**The Accounts of the Duchies of Cornwall and Lancaster**

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**Q166 Mr Bacon:** Mr Glicksman, on page one it says “On 1 July 2000 the then Chancellor revocably delegated certain functions, particularly those relating to asset management, to the Council.” The current Chancellor it says on 26 June 2003 “. . . reconfirmed the revocable delegation . . .”. I take it that was the then current Chancellor, Mr Alexander. Presumably the revocable delegation is still in place, is it?

**Mr Clarke:** Can I just answer that. In fact what happens, it is a revocable delegation and every time we have a new Chancellor—

**Q167 Mr Bacon:** He revokes it again?

**Mr Clarke:** Yes, it is re-signed.

**Q168 Mr Bacon:** Did Mr Milburn then re-revoke this delegation?

**Mr Clarke:** He has granted the delegation.

**Q169 Mr Bacon:** So Mr Milburn revocably delegated certain functions in the way previous Chancellors have done?

**Mr Clarke:** Correct.

**Q170 Mr Bacon:** What does Mr Milburn do for the Duchy of Lancaster?

**Mr Clarke:** He is the Chancellor and he sits—

**Q171 Mr Bacon:** That is what he is, what does he do?

**Mr Clarke:** I was going to explain. He receives all papers for all meetings, he has been up to Lancashire and had a look around and has met—

**Q172 Mr Bacon:** He has been to Lancashire! Did the Duchy meet the costs of his trip to Lancashire?

**Mr Clarke:** No.

**Q173 Mr Bacon:** Who did?

**Mr Clarke:** I do not know.

**Q174 Mr Bacon:** Mr Glicksman? Who met the costs of Mr Milburn’s trip to Lancashire?

**Mr Glicksman:** I am afraid I do not know the answer to that, Mr Bacon.

**Q175 Mr Bacon:** Sir John, does the National Audit Office know who met the cost of Mr Milburn’s trip to Lancashire if it was not the Duchy of Lancaster and the Treasury does not know?

**Sir John Bourn:** I do not know either who met those costs.

**Q176 Mr Bacon:** Perhaps he hitchhiked!

**Mr Clarke:** He did undertake work for the Duchy to the extent he met tenants but he also went to meet with Hilton Dawson in Lancaster.

**Q177 Mr Bacon:** Who is a Member of Parliament.

**Mr Clarke:** Indeed.

**Q178 Mr Bacon:** What I am trying to get to is what does Mr Millburn, who is the Chancellor, do for his £127,000 of public money?

**Mr Clarke:** I beg your pardon?

**Q179 Mr Bacon:** What does the Chancellor of the Duchy of Lancaster do for his £127,000 of public money? He is the Chancellor of the Duchy of Lancaster. He gets paid £127,000 of public money, does he not? That is right is it not, Mr Glicksman?

**Mr Glicksman:** I do not know, I am afraid. I would have to look it up.<sup>3</sup>

**Q180 Mr Bacon:** Given he is the Chancellor of the Duchy of Lancaster, what does he do for this £127,000?

**Mr Clarke:** He is not paid £127,000.

**Q181 Mr Bacon:** He is not paid £127,000?

**Mr Clarke:** Not by the Duchy.

**Q182 Mr Bacon:** Not by the Duchy of Lancaster?

**Mr Clarke:** No.

**Q183 Mr Bacon:** But he is paid £127,000, is he not, Mr Glicksman?

**Mr Glicksman:** I cannot verify the figure but he is a member of the Cabinet.

**Q184 Mr Bacon:** He is a member of the Cabinet but he is paid in his capacity as Chancellor of the Duchy of Lancaster.

**Mr Glicksman:** He has the title of Chancellor of the Duchy of Lancaster, he is also a member of the Cabinet.

**Mr Clarke:** If I can just explain, the appointment of the Chancellor of the Duchy of Lancaster is an appointment by the Queen and it is outwith his duties as a minister.

**Q185 Mr Bacon:** So does he have another ministerial title as well which I do not know about? Perhaps he does.

**Mr Clarke:** It is not within my remit, I am afraid.

**Q186 Mr Bacon:** Mr Glicksman?

**Mr Glicksman:** I am afraid I cannot help you.

**Q187 Mr Bacon:** Can I ask a slightly different question and that is about the nature of the phrase “public money” because we have been bandying this phrase around. The net surplus of the revenues from this landed estate are handed over to the Prince of Wales as his private income, and the same in relation to the Duchy of Lancaster, but they are monies from an agricultural landed estate in the same way as the Duke of Westminster has a landed estate or the Duke of Bedford or whoever else, so in what sense are they public money? Do you regard them as public money in that sense?

**Mr Clarke:** I think that is a very good question. I do not want to go back because I know time is limited, but when the Duchy of Lancaster was first

<sup>3</sup> *Note by Witness:* Mr Milburn’s duties as a Cabinet Minister are to oversee the work of the Strategy Unit and No 10 Policy Directorate and a cross governmental role in the coordination of government policy.

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The Accounts of the Duchies of Cornwall and Lancaster

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created, Henry Bolingbroke created the first prenuptial agreement to the extent he actually inherited the Duchy before he was King and when he took over the monarchy he brought the Duchy to it, but he wanted to make absolutely sure it was dealt with as a separate inheritance outwith the estates he took over as monarch. So the Charter of 1399 was created and that Charter very specifically states that it is a separate inheritance under separate administration from the Crown Estates.

**Q188 Mr Bacon:** So, for example, Sandringham, we know, is privately owned by Her Majesty the Queen, whereas Windsor Castle and Buckingham Palace are properties of the state. Are you saying this would be regarded in the same way as Sandringham, as private property?

*Mr Clarke:* Yes.

**Q189 Mr Bacon:** Although the capital cannot be accessed in the same way as if it was private property?

*Mr Clarke:* No, the capital cannot be accessed, but it is like a statutory perpetual trust.

**Mr Bacon:** Thank you.

**Q190 Mr Allan:** Following up that line of questioning, it seems to me that Parliament over time has gradually encroached more and more on the Royal possessions. We are squatting in a Royal Palace at the moment. Is it right too that Parliament could, through primary legislation, attempt to do something different with the capital? Parliament set the rules for the capital in the two Duchies and Parliament therefore could change the rules? Is that the correct interpretation?

*Mr Clarke:* I think you have to go back a bit. A Charter was a very early form of Act, and the only way that control could be placed on ensuring that capital was not whittled away by perhaps a life tenant who had other ideas as to how it was to be spent, was by Parliament passing an Act, because that was the only way to place rules over a Charter which was then created by a King.

**Q191 Mr Allan:** Can we examine how tightly you are defined, both of you, because you have different rules from different Acts. Starting with you, Mr Clarke, do you have to go to the Treasury for permission to carry out large capital transactions in the same way that Mr Ross has told us the Duchy of Cornwall does?

*Mr Clarke:* No, we have a different form of governance, to the extent that the Queen appoints the Chancellor, as I mentioned earlier, outwith his role as minister, and the Chancellor has delegated authority to Council. In the old days, our Council was advisory and the power was really settled in the Chancellor and indeed the Clerk of the Council which was myself in the old days. Now it is very different, because the Chancellor delegates authority to Council. Council is far more akin to a board of a company and they take responsibility and have fiduciary responsibility for the fact and for the decisions and the strategy that we follow.

**Q192 Mr Allan:** So the Treasury wants a lot more detail from the Duchy of Cornwall; it trusts them less in a sense than it trusts you? Your Council has a lot more freedom from Treasury than the Duchy of Cornwall? Is that correct, Mr Glicksman?

*Mr Glicksman:* It is not so much a question of whether the Treasury trusts them more or less, it is a question of what the legislation says.

**Q193 Mr Allan:** The legislation trusts them more; entrusts them with more freedom?

*Mr Glicksman:* Yes.

**Q194 Mr Allan:** Can I ask, Mr Glicksman, in respect of Mr Ross, you presumably have bits of paper floating around the Treasury asking for permission for lots of individual transactions?

*Mr Glicksman:* The Duchy of Cornwall under the Management Acts is required to get Treasury approval for all significant capital transactions.

**Q195 Mr Allan:** Has anybody asked for these under the Freedom of Information legislation yet?

*Mr Glicksman:* Not that I am aware of.

**Q196 Mr Allan:** But presumably they could and you would have to judge them in the normal way?

*Mr Glicksman:* Yes, anybody could ask for them and we would have to judge them under the criteria in the legislation.

**Q197 Mr Allan:** Not that I am suggesting they should. Both Mr Clarke and Mr Ross, have you taken advice on whether or not you are public bodies for the purposes of the Freedom of Information Act and what the result of that advice was?

*Mr Clarke:* We are not public bodies, we are exempt.

*Mr Ross:* We are the same.

**Q198 Mr Allan:** Can I ask about your Council, Mr Clarke. You said it is more like the board of a public company. Can you briefly describe what happens when a vacancy occurs, one of your Council members goes? What happens then? So Mr Steinberg can apply.

*Mr Clarke:* I will look forward to receiving his CV!

**Q199 Mr Allan:** He is writing his CV now.

*Mr Clarke:* We have, as I mentioned earlier, appointed two new Council members—Sir Christopher Howes retires this year—and we were looking for two particular disciplines, one in property and the other in the financial market. The posts were advertised on the Cabinet Office website and we employed an appointments specialist to seek these new appointees. They produced a shortlist for our consideration, we held a number of interviews over a two-day period, the interview panel comprising myself, the Chairman of the Council, and the Keeper of the Privy Purse together with Lord Shuttleworth, and we had Mr Taylor from Treasury acting as an independent member of that interview panel.

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 The Accounts of the Duchies of Cornwall and Lancaster
 

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**Q200 Mr Allan:** This took place according to what we would call the Nolan principles; all the normal principles which apply for public appointments?

**Mr Clarke:** They certainly did.

**Q201 Mr Allan:** Can I ask, Mr Clarke, about the question of opening up your books to the National Audit Office. From what you are saying, the Chancellor of the Duchy of Lancaster is responsible and part of the additional freedom you have, I guess, reflects the fact the Chancellor of the Duchy of Lancaster is accessible to us. Could the Chancellor of the Duchy of Lancaster then say, "I want to open our books to the National Audit Office"? Is that in his power? Is he the person who could decide?

**Mr Clarke:** He could make the suggestion and the matter would be discussed by Council and would have to be discussed with the life tenant. We take the view that it is a private estate, as I have explained in the little history lesson I gave, and as a private estate we have a firm of auditors who undertake the work for us. We feel very satisfied with that, we feel our accounts are open and have a number of items which give the reader a very good idea of what is happening within our organisation. We just do not see the need for the NAO to come in and deal with the audit.

**Q202 Mr Allan:** We want to understand the key people who are making those decisions. I think we understood from the Duchy of Cornwall's side that is really in the hands of the Prince of Wales, but from your point of view it is in the hands of the Council effectively speaking to the life tenants and speaking to the Chancellor of the Duchy of Lancaster.

**Mr Clarke:** I think it is something that would come up within our audit committee which, hopefully, will be set up very soon. That would be part of Council and the audit committee would review in the normal way the fact that auditors and their appointment should be reviewed now and again.

*The Committee suspended from 6.06 pm to 6.28 pm  
for a division in the House*

**Q203 Mr Allan:** I think I was talking about your Council, Mr Clarke, in the Duchy of Lancaster and I put a very specific question which is to know how many times your Council met last year. We know from the Duchy of Cornwall that the Council met all of twice. How often does your Council meet?

**Mr Clarke:** Six times.

**Q204 Mr Allan:** So every two months they have a meeting?

**Mr Clarke:** Yes.

**Q205 Mr Allan:** Do you have sub-committees and so on like the Duchy of Cornwall?

**Mr Clarke:** No, we do not. We are not big enough really to justify having sub-committees. When we go through the corporate governance exercise there is every possibility that there will be an audit committee.

**Q206 Mr Allan:** Thank you. In comparing the two reports of the two Duchies, I was very interested in the Duchy of Lancaster because most of your land is in the County of Yorkshire, the correct side of the Pennines, but you do not have a statement like the Duchy of Cornwall, which of course has most of its land in Devon, where they have a nice, cuddly statement saying that they try and balance up a series of objectives, which I liked, and one of them said in the interests "of those people who will live in, earn their living from or simply enjoy Duchy property given due weighting". That is in their report on page two. The Duchy does have this very sort of people-friendly reputation. The Duchy of Lancaster report did not have anything like that. Do you have a similar ethos that you are also acting in the interests of tenants in Yorkshire and you are not a hard-nosed, wicked business trying to extract the last penny from them?

**Mr Clarke:** No, we have a very similar philosophy. In fact, we do not have a formal statement within our accounts but if you go to the website there are some statements on that regarding our commitment to continuity and we do try to work with our tenants. It is a partnership and the only way that we can have a sustainable income is to ensure that our tenants have sustainable businesses.

**Q207 Mr Allan:** Do you feel that leads to different forms of decision making from a purely commercial landlord point of view?

**Mr Clarke:** We have a fiduciary duty to ensure that we are achieving the correct rents and we are trying to maximise our returns, but against that there is always the balance that one wishes to ensure you do not price a tenant out of the market otherwise that negates the benefit of having a successful business.

**Q208 Mr Allan:** That kind of policy will be set by your Council?

**Mr Clarke:** Yes.

**Q209 Mr Allan:** In the case of the Duchy of Cornwall it seems to be very much more hands-on that the policy is set by the Prince of Wales himself. Is that correct, Mr Ross?

**Mr Ross:** Yes, I think that is correct. It is the way that our Duchy is structured more that the Prince of Wales does have a direct hands-on approach. Our involvement in all these things is enormous. It is something that I would love to take up a lot of your time on, but things like Poundbury and the built environment, the home farm, we have over 100 visitors a year to those. We have an infinite number of meetings with different organisations.

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The Accounts of the Duchies of Cornwall and Lancaster

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**Q210 Mr Allan:** Something like Poundbury is a big capital investment. Is that a decision effectively made by the Prince of Wales personally or is it the Council that makes that kind of decision?

**Mr Ross:** Sorry, I did not quite catch the question.

**Q211 Mr Allan:** The decision to invest in Poundbury, which everybody is aware of, was that decision to go ahead and put that money in there, a big chunk of the capital of the estate, made by the Prince of Wales?

**Mr Ross:** The real value was generated when it was land that was allocated for development. What the Prince of Wales decided to do was to depart from conventional types of development so that he could make his architectural—

**Q212 Mr Allan:** I think I understand that, but there was clearly an investment decision and I am just trying to ascertain whether that was a personal decision, that the Prince of Wales would look at a business plan and say “Let’s go for it”.

**Mr Ross:** I was not around at the time. There was a very strong influence by the Prince of Wales on this and it was a matter that we did go into in a great deal of detail with the Treasury.

**Q213 Mr Allan:** In the case of the Duchy of Lancaster it would not be Alan Milburn who made that kind of decision, it would be the Council sitting down and making that sort of decision?

**Mr Clarke:** Absolutely. The Council sets criteria by which we are to undertake any form of investment. We have set returns that we wish to try to achieve.

**Q214 Mr Allan:** *Bona vacantia*—I just love the word—I think was the same principle we used to use to plant flags on entire countries and claim them and now it only applies to unclaimed estates in certain parts of the UK in this context. Can I just check, in terms of the Duchy of Lancaster, it says that you use this money to pay for the costs of administration of the magistrates’ service there.

**Mr Clarke:** Yes. We are responsible at the present time. Up until 1 April this year we appoint magistrates and we have advisory committees that assist and make recommendations that we then put to the Chancellor.

**Q215 Mr Allan:** In other parts of the country that would be the Department for Constitutional Affairs’ expenditure?

**Mr Clarke:** Absolutely. As from 1 April it will be in our area as well.

**Q216 Mr Allan:** Can you explain this lovely Anglo-Saxon word “escheats”. I just wanted to get that on to the record.

**Mr Clarke:** That is much the same. That is a company that has ceased to trade.

**Q217 Mr Allan:** Escheated Properties.

**Mr Clarke:** We are the owner of last resort.

**Mr Allan:** Thank you.

**Q218 Mrs Browning:** Could I just clarify, Mr Clarke, you outlined the procedure for people being interviewed and appointed to the Council of the Duchy of Lancaster but I read in my notes that it is on the advice of the Chancellor of the Duchy of Lancaster. Is that purely a rubber-stamping exercise?

**Mr Clarke:** What happens is the Council will undertake the interviews. They will make a recommendation to the Chancellor who will then make a recommendation to the Queen, who will make the appointments, and it comes back down the line again.

**Q219 Mrs Browning:** Is that a rubber-stamping exercise?

**Mr Clarke:** The Chancellor will look to ensure that we have done all the things that we should have done in relation to that appointment, so he is aware and knows the procedures we have gone through.

**Q220 Mrs Browning:** But would never overturn your decision?

**Mr Clarke:** I cannot speak for the Chancellor. He could.

**Q221 Mrs Browning:** Gentlemen, could I bring you back to something that was raised right at the beginning and has been throughout these deliberations, and that is this question of the capital account and the revenue account and the transfer of money. I just want to clarify, because you have answered a lot of questions on this, that ultimately of the £1.2 million you said that £600,000 had only been drawn down of the original application and that was all fine as far as the Treasury was concerned. Mr Glicksman, I wonder if you could just tell us, when these applications come forward, what are the criteria behind what the Treasury will and will not allow on something specific, as we read it, that is not the norm in terms of the process here?

**Mr Glicksman:** There are three statutory criteria that we have to look at. We have to balance the interests of the current and future Dukes; we have to consider the interests of people living in the vicinity who may be affected; and we have to consider whether it is conducive to the good management of the Duchy.

**Q222 Mrs Browning:** So in this particular case where over the last five years we have seen in the Duchy of Cornwall revenue surpluses of 72% and the capital account appreciating by some 50%, is it just that £1.2 million looks a pretty small sum in those circumstances or do you actually challenge why this money is needed for transfer?

**Mr Glicksman:** No, we look at each case carefully. We do not consider £1.2 million to be a small sum.

**Q223 Mrs Browning:** Has there ever been an occasion when there has been an application for a similar transfer that you have felt was not appropriate?

**Mr Glicksman:** We try to keep in close touch with the Duchy to ensure that they are aware of the approaches that we would take towards particular

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**The Accounts of the Duchies of Cornwall and Lancaster**

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transactions and try to ensure that transactions do not come forward that we might find difficult to approve.

**Q224 Mrs Browning:** Mr Clarke, I wonder if I can just come on to you because we have seen exchanges of correspondence between yourself and the Chairman of this Committee in the months of last year and I have to say, looking at your letter to our Chairman on 11 June 2004, you did not sound best pleased at the thought that all this was going to occur in terms of scrutiny and production of accounts. I see you are smiling now but it did not look as though you were smiling when you wrote the letter of 11 June. In particular, you said: “It is not believed that anything that can be gained by such consent being given . . .” et cetera, et cetera. I wonder if you have had time to reflect on that and perhaps you or Mr Ross can answer as to whether you think there is something to be gained by being more transparent with the accounts of the Duchies?

**Mr Clarke:** First of all, that letter quite correctly, on reflection, was felt to be slightly terse and I apologise to the Committee for that, hence the Chairman followed it up with a much better crafted letter than I did. I think there is obvious value in transparency and we try very hard to achieve that transparency. There are areas that this exercise has brought to our attention and we will be looking at in the production of our accounts in the coming year. Certainly from the point of view of the PAC and the NAO we do firmly believe that we are a private estate. I have done my little bit of history and I am not a history scholar but it was the best I could do. We do feel, as a private estate, we should continue to be run as a private estate utilising consultants from the open market who are professional and can undertake a task which serves our purpose.

**Q225 Mrs Browning:** Thank you. Mr Ross?

**Mr Ross:** Frankly, coming before this Committee is a daunting procedure. We have taken it extremely seriously. I would also like to take away a relatively positive view about the whole process. It is something that makes one look very carefully at all the subjects that have been addressed today and I feel that these are things that we will take away and look at in a constructive way.

**Q226 Mrs Browning:** I hope you will take it that this Committee is looking at value for money because there is value for money in the public interest here, not least because of the tax concessions that were mentioned earlier—no capital gains tax paid, no corporation tax paid—and as a result of those tax breaks it is important that perhaps this Committee should have more access to information and particularly Sir John Bourn has more access to information in order to put reports before this Committee. Do you feel perhaps in the future you would be more open with information that we might need to look at?

**Mr Ross:** This is the first time that this subject has been raised with us. As Mr Glicksman has said, we have regular meetings with the Treasury and we do

co-operate. We do not dogmatically resist everything, we do go along with their proposals. As he said, there have not been any areas of total disagreement. In fact, I cannot remember in my time any areas of marginal disagreement. We report the cases thoroughly. We are genuinely pleased that we do present the accounts in the way that we do, but we still take into account the points that have been raised today.

**Q227 Mrs Browning:** You have said throughout this afternoon you feel you should be regarded more as a trust than a company, but could I come to, for example, the way you manage your property portfolio and the transparency there in the Duchy of Cornwall. For example, 80% of your properties are internally valued, 20% externally by names we would all recognise, but under generally accepted accountancy practice you do not disclose your valuers’ qualifications for the 80% of your portfolio that is valued internally. Why is that?

**Mr Ross:** We value our entire estate on a rotational basis. The external values we have are advised to our regulators. Our internal valuers act under instructions; they are qualified chartered surveyors and they act under the directions of our professional advisers.

**Q228 Mrs Browning:** Property seems to be very important to you. I notice on the very first page of your accounts you pray in aid a whole range of things which involve the property and land base, and then further on, on page 5, in particular you flag up the fact that “affordable housing featured highly within the Duchy during the year . . .” and you also mention affordable housing, social housing, in the Poundbury development. Further down, as a Devon Member of Parliament I was interested to see your interest in the reinvestment in the Isles of Scilly, right down at the far end. Can you tell us, in the Duchy’s view what is affordable housing?

**Mr Ross:** Affordable housing is the provision of housing—and I do not have a particularly formal description—

**Q229 Mrs Browning:** It is a hard question, I could not answer it.

**Mr Ross:** It is housing which is affordable at the salary rates and wages which are being paid in those areas. It is a formula in fact which is more clearly defined in discussions with the local authorities.

**Q230 Mrs Browning:** So how does the Duchy balance this recognition, particularly in the West Country and the further west you go, of lower-than-average wages, higher-than-average house prices and wanting to make a contribution to affordable, social housing in the West Country, with your need to get a return and value for your capital investments?

**Mr Ross:** Our view about rents is that in general they should be fixed at the open market rate with whomever you are dealing, because if you do not do that you are in many ways not being fair to the people who are paying the proper rent. We then have

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The Accounts of the Duchies of Cornwall and Lancaster

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an obligation to get the proper rents through the Management Act, but what we can do is give concessions outside the rental negotiations providing they are not binding on the future Duke. Those are the terms. So what we tend to do is negotiate rents—and this is away from affordable housing at the moment—and then look at the way in which concessions could be made, either to residential tenants, agricultural tenants or commercial tenants.

**Q231 Mrs Browning:** Is the social housing in Poundbury all rented property, or are people able to access lower cost purchase or part-rent/part-purchase?

**Mr Ross:** It is very much mixed. We do administer that at the moment through housing associations, so the Guinness Trust are the main occupiers. Effectively they take the land from us, either on a lease or by purchase, build the houses and then operate an affordable housing agenda.

**Q232 Mrs Browning:** In terms of property in the Duchy of Lancaster, why was £2.3 million of property reclassified from property occupied by the Duchy to commercial property in 2003–04?

**Mr Clarke:** This was the Duchy offices where we occupied the whole building. It is a very complicated building and 1 Lancaster Place sits on the end of Brettenham House, which overlooks the river by Waterloo Bridge, and we occupied the whole of the section which was basically four floors when we had far more staff. Now we have consolidated, and we are refurbishing the building and putting certainly two-and-a-bit floors out on to the market to let when we have completed the works.

**Q233 Mrs Browning:** Why have you not disclosed who undertook the valuations of your property estate?

**Mr Clarke:** We say within the notes to the accounts that we have chartered surveyors who undertake that, and they undertake it in accordance with the Red Book—what we call the Red Book, which is the Valuation Bible.

**Q234 Mrs Browning:** Just to come back to Mr Ross, I do not think you actually answered my question about 80% of the property that is valued by people whose qualifications are not listed.

**Mr Ross:** There is, frankly, a balance between properties being valued every year and properties being valued on a rotation.

**Q235 Mrs Browning:** Is there any reason why, however frequently you do it, or whatever the process is, you cannot, as with generally accepted accounting procedure, disclose the qualifications of the people carrying out the exercise? After all, quite an important aspect of your accounts is how you value your capital asset.

**Mr Willis:** Perhaps I could just say that that 20% by number which are valued each year externally is nearer 60% by value, so it is a fair hike in value terms;

20% by number, 60% by value. Yes, we could indeed disclose more fully who the internal valuers are who are valuing the remainder.

**Q236 Mrs Browning:** Will you do that, because that seems to me to be best practice? When you talked at the beginning about benchmarking, I would have thought that was one of the common practices which could be quite easily benchmarked. It is just that sort of little thing, if you are reluctant to disclose those sort of things which one would normally expect to see in accounts, which makes people on the Republican tendency, of which I do not include myself, feel somehow you are trying to cover something up.

**Mr Ross:** I see the point. In fact it is a process of getting round the estates as well because this is a process which has been going on for five years since these valuations were disclosed. Our professional external valuers are valuing roughly a fifth per year and they have now virtually inspected the entire estate, then the valuation process is still supervised by them, and all the computer information we have available, which is rental increases and things of that kind, and the actual process is visiting the properties by the professional valuers. I still take your point. The dominance of our professional valuers, partly because of the point Mr Willis has made and also because of the fact they have inspected all these properties which are not changing at any great pace, I think gives good accountability.

**Q237 Mr Davidson:** Mr Ross, I wonder if I could ask you to clarify the tax which is not paid, as it were, by Cornwall? It has been suggested to me that it is worth between £20 and £40 million a year. Can you give me your estimate?

**Mr Ross:** I could not give you such an estimate.

**Q238 Mr Davidson:** Why not?

**Mr Ross:** Which figure did you say?

**Q239 Mr Davidson:** Between £20 and £40 million a year.

**Mr Ross:** Which particular tax are we talking about?

**Q240 Mr Davidson:** Capital gains tax, corporation tax.

**Mr Ross:** I am not in a position to be able to comment on that, simply because we do not have base values, for a start, for capital gains tax.

**Q241 Mr Davidson:** So you do not buy and sell anything at all during the course of a year?

**Mr Ross:** No, we do indeed.

**Q242 Mr Davidson:** You must be able to assess how much the corporation and capital gains tax would have been, but you have not done so.

**Mr Ross:** We do not have base values.

**Q243 Mr Davidson:** Could we have a note, Chairman, on how much the Duchy of Cornwall have saved during the last year by not having paid capital gains tax and corporation tax?

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**The Accounts of the Duchies of Cornwall and Lancaster**

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**Mr Ross:** We operate our business within the tax systems which exist.

**Q244 Mr Davidson:** Which is that you do not pay any.

**Mr Ross:** The Prince of Wales pays income tax.

**Q245 Mr Davidson:** No, no, I am keeping the Prince of Wales's money separate from the Duchy's money. I think it is important to do that, I am sure you would agree. You do not pay corporation tax or capital gains tax, I am asking if you could clarify for us how much that would have cost you if you had been paying it. How much is the value of this tax avoidance worth?

**Mr Ross:** I am not in a position to be able to tell you that.

**Q246 Mr Davidson:** Sorry? You do not know or will not tell?

**Mr Ross:** We do not have the information about base values.

**Q247 Mr Davidson:** If next year it was decided you were going to pay tax, are you telling us you could not possibly calculate how much tax you should pay?

**Mr Ross:** If you do not have a tax system, it is quite hard to make the calculations on base values.

**Q248 Mr Davidson:** So you cannot calculate it. So an estimate of £40 million might very well be accurate, so effectively you are receiving a £40 million subsidy from the taxpayer as a result of not paying tax. That figure is just as accurate as any other estimate?

**Mr Ross:** You could say any figure, you could say £5 million, you could say £100 million, I do not think it bears any relevance. You people have picked some figures up on a loose calculation, I do not really think it is my decision to haggle.

**Q249 Mr Davidson:** No, but you mentioned between £5–100 million there, you know the estate better than I do, you are running it, you must have come to some conclusion. I wonder if you can possibly give us a note which might assist us to value the tax exemption your estate receives because it may be we want to take that into account in formulating our recommendation; is that possible? I want to be clear, when you say you do not want to do it, is this a “don't want” or just simply “can't” because if it is a “can't” it calls into question, I would have thought, the competence of the operation.

**Mr Ross:** At the moment, the capital gains means you have a gain from here to here.

**Q250 Mr Davidson:** Yes, I understand that.

**Mr Ross:** We have no base lines. I do not whether you would make a conjecture for us whether the base line is on 1992 figures or on—

**Q251 Mr Davidson:** That is a “won't say” then really, is it not? Can I clarify your relationship with VAT for a moment. Do you pay value added tax on anything?

**Mr Ross:** Yes, we do.

**Q252 Mr Davidson:** On everything?

**Mr Willis:** We operate the normal VAT regime.

**Q253 Mr Davidson:** Can I turn to your role as a property developer. The Prince of Wales has always been pretty strong on a number of issues, ethics and so on, and sustainability. The property in which you have invested, could any of the property in which you have invested be described as unethical or unsustainable in environmental terms?

**Mr Ross:** Possibly.

**Q254 Mr Davidson:** Possibly. That is helpful.

**Mr Ross:** We invest in a number of types of property.

**Q255 Mr Davidson:** Some of which might be in contradiction to the express views of the Prince who chairs the board and makes the decisions.

**Mr Ross:** We have to make certain balances.

**Q256 Mr Davidson:** I understand that.

**Mr Ross:** On the capital account and on the revenue account we are charged by a variety of procedures to perform in a certain way. The Prince of Wales's views about the environment and sustainability are very strongly felt. If it is on our own land, which indeed we are doing at Poundbury, those standards which you are referring to are very highly followed. If it is on land that we have acquired or for some reason is in our possession for historical reasons that is going to be redeveloped, what is there already may not be in our control.

**Q257 Mr Davidson:** You have been there forever so presumably—

**Mr Ross:** Some of these buildings were put in place before the Prince of Wales was around.

**Q258 Mr Davidson:** You have the option to sell them, of course, notwithstanding the fact that you do not have base values, you have the option to sell them?

**Mr Ross:** These are the commercial criteria.

**Q259 Mr Davidson:** I understand that but the point I am saying is given that the Prince has expressed very strong views on this I do find it surprising you cannot give us an assurance that all the property owned by the Duchy, none of it can be described as unethical or unsustainable in environmental terms. It seems to me that there is one rule the Prince would wish to apply to others but one rule that he applies to his own investments.

**Mr Ross:** We try to influence this in two ways. One, by setting an example and, two, by being involved with the people who occupy those properties to whom we let, by showing the benefits. The thing which we try to point out is that good practice and sustainability and commercial can come together. It is a gradual process.

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The Accounts of the Duchies of Cornwall and Lancaster

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**Q260 Mr Davidson:** Can you give us a list of the properties in which you have investments in order that we can make judgments as to whether or not they are ethical and sustainable?

**Mr Ross:** We have something over 3,000 different agreements with people.

**Q261 Mr Davidson:** Is that a yes then or a no?

**Mr Ross:** We have 3,000 different agreements.

**Q262 Mr Davidson:** I am asking whether or not you can give us a list of the properties in which you have money invested in order that we and others can make an assessment as to whether or not those investments are ethical and sustainable.

**Mr Ross:** It is a very judgmental issue.

**Q263 Mr Davidson:** Are you willing to give us the information?

**Mr Ross:** I will discuss what is ethical and sustainable if—

**Q264 Mr Davidson:** I am prepared to debate the issue. Will you make the information available about the investments in order that judgments can be made by you, me and third parties about what is ethical and sustainable?

**Mr Ross:** I do not think this is an issue which is relevant to this Committee.

**Q265 Mr Davidson:** Sorry, I am asking the questions and you are providing the answers, that is the way in which the Committee works. I am asking you whether you will provide a list of the properties that are held by the Duchy in order that we can measure whether or not they come up to the standard about which the Prince speaks so often and so movingly.

**Mr Ross:** I think it is something I would need to have a great deal clearer understanding of because who is going to be the judge of what is ethical and sustainable.

**Q266 Mr Davidson:** Public opinion. The Prince has spoken at great length on this. We would measure them against the criteria he has set himself. Can we have a report on the list of properties?

**Mr Ross:** I do not see why.

**Q267 Mr Davidson:** I know you do not see it but I am asking you, can we have it?

**Mr Ross:** I do think it would serve any better purpose—

**Q268 Mr Davidson:** You do not think that but I do. I am asking you—yes or no—will you make available a list of the properties? Are you refusing to do so?

**Mr Ross:** I am not saying no but I still need to be persuaded there is a good reason to do so.

**Q269 Mr Davidson:** If you are not saying no you are saying yes then. This is a simple yes/no question.

**Mr Ross:** I am leaving the question unanswered because I cannot see the purpose of it.

**Q270 Mr Davidson:** Given that the Prince has expressed strong views on out of town supermarkets and things that he describes as carbuncles, can you tell us whether or not you own any of those?

**Mr Ross:** The only supermarket which I am aware of is one that has been built at Poundbury which was subject to very stringent control.

**Q271 Mr Davidson:** There are no other supermarkets or out of town superstores or anything similar?

**Mr Ross:** We have other out of town industrial properties.

**Q272 Mr Davidson:** Are they carbuncles?

**Mr Ross:** They are ones we have purchased—

**Q273 Mr Davidson:** Is that a yes or a no? Are they carbuncles or are they not?

**Mr Ross:** What is a carbuncle in your opinion?

**Q274 Mr Davidson:** Give me a list of them and let me see them.

**Mr Ross:** They have been built to a very high standard.

**Q275 Mr Davidson:** Okay, you are refusing to do that. Okay, I understand that. Can I ask in terms of commercial development, because you do not pay tax, that is obviously going to affect the investment appraisal decisions which you make about what will give a return and so on, do you think that is unfair competition with other developers?

**Mr Ross:** Again, it is not an issue for me to be considering.

**Q276 Mr Davidson:** Okay. It is too complicated. Can I ask about judgments for property sales and in particular could I ask about 97 Park Road, Hampton Hill which I understand was sold at considerably less than the market rate—

**Mr Ross:** It was not.

**Q277 Mr Davidson:**—to a Michael David Fawcett. It was not sold for less; how do you know it was not sold for less?

**Mr Ross:** We had independent valuers who were appointed. We got a Section 11 warrant from the Treasury.

**Q278 Mr Davidson:** Do you know how much that property was bought for?

**Mr Ross:** I do.

**Q279 Mr Davidson:** You will be able to estimate the capital gains on that property at least and therefore the scale of the value to you of being exempt from capital gains tax?

**Mr Ross:** I think we would because we have a base value that the house was purchased on. Again, it would be theoretical.

**Q280 Mr Davidson:** On quite a lot of properties you could formulate your capital gains tax gains. Okay. Can I clarify in terms of the independence of the

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**The Accounts of the Duchies of Cornwall and Lancaster**

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Prince's Council—about which others have commented—of the people on that, how many of them sit on other committees and subsidiaries that the Prince has control of, in particular Duchy Originals, Home Farm and other structures and organisations?

**Mr Ross:** Other organisations?

**Q281 Mr Davidson:** Of which the Prince has control or an involvement?

**Mr Ross:** I cannot think of any.

**Q282 Mr Davidson:** None of them sit on anything else?

**Mr Ross:** There is; sorry. The Prince of Wales's Private Secretary does.

**Q283 Mr Davidson:** Right. In terms of the accounts of Duchy Originals and Home Farm, are they lumped in with the Duchy?

**Mr Ross:** Duchy Originals is totally separate.

**Q284 Mr Davidson:** Can you clarify for me, Duchy Originals and Home Farm, and any other enterprises that you have, where do their profits go? Do they come back into the Duchy of Cornwall?

**Mr Ross:** Home Farm is let to the Prince of Wales so any profit and loss is his own personal business.

**Q285 Mr Davidson:** What is it let to? It is let to the Prince of Wales at what?

**Mr Ross:** Full market rent, established by independent valuers. The other question, Duchy Originals is a trading company, it is a subsidiary of a charity. All the proceeds go into the charity.

**Q286 Mr Davidson:** In terms of the relationship with the Prince of Wales can I clarify what happens in circumstances where the Prince comes to stay occasionally, maybe in a Duchy property, or does something similar. You have no properties that would ever be occupied in any circumstances by the Prince?

**Mr Ross:** We have one property on the Isles of Scilly which he has not even spent a night in for the last 25 years. Highgrove, I beg your pardon, is owned by the Duchy of Cornwall.

**Q287 Mr Davidson:** Highgrove is owned by the Duchy of Cornwall. That is interesting. Can I ask in terms of capital works which are undertaken at Highgrove, who pays for those? Is that the Duchy?

**Mr Ross:** Capital works are usually paid for by the landlord, which is the Duchy.

**Q288 Mr Davidson:** So the development of the Orchard Rooms, for example, would have been paid for by the Duchy?

**Mr Ross:** Correct.

**Q289 Mr Davidson:** Was that competitively tendered?

**Mr Ross:** I cannot tell you that, I was not around.

**Q290 Mr Davidson:** Can you give us a note?

**Mr Ross:** I can give you an answer to that.

**Q291 Mr Davidson:** In terms of the entertainment which takes place at Highgrove, of which I understand there is a fair amount, how is the charging done in terms of cost? There must be costs incurred for heat, lighting and so on, is all of that met by the Prince because he pays the entire costs of the building all the time?

**Mr Ross:** It does not involve the Duchy of Cornwall at all. We let the premises to the Prince of Wales.

**Q292 Mr Davidson:** There is no basis on which there is any subsequent charge against the Duchy?

**Mr Ross:** There is absolutely no cost for any private matters paid by the Duchy of Cornwall.

**Q293 Mr Davidson:** Does the Duchy incur any costs at all for entertaining in any way whatsoever?

**Mr Ross:** Yes, we do.

**Q294 Mr Davidson:** Are those competitively tendered?

**Mr Ross:** The cost of entertainment? No.

**Q295 Mr Davidson:** Are these contracts for entertaining disposed of by Premier Mode?

**Mr Ross:** No. We do no business with Premier Mode. I go and attend events which are hosted by the Prince of Wales, but there is nothing the Duchy of Cornwall does which involves Premier Mode.

**Mr Davidson:** Thank you very much, Chairman.

**Chairman:** There are one or two supplementary questions from members.

**Q296 Mr Williams:** I was going to ask about Highgrove myself, because I seem to remember at one time it being said the Prince himself paid for it, but I gather now the Duchy paid for it?

**Mr Ross:** Paid for what sorry?

**Q297 Mr Williams:** The building of Highgrove.

**Mr Ross:** The building of Highgrove? We did not pay for the building of Highgrove, it was built about 300 years ago.

**Q298 Mr Williams:** Whatever the cost was of Highgrove.

**Mr Ross:** The Duchy of Cornwall purchased Highgrove.

**Q299 Mr Williams:** The Duchy of Cornwall purchased it?

**Mr Ross:** Correct. We now let it. It is set out in the Memorandum of Understanding that there is a proper agreement between the Duchy of Cornwall and the Prince of Wales for which he pays a full market rent which is, in this case, assessed by two separate valuers because of the sensitivity.

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The Accounts of the Duchies of Cornwall and Lancaster

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**Q300 Mr Williams:** Who appoints those valuers?

**Mr Ross:** We appoint one, the Prince of Wales appoints the other.

**Q301 Mr Williams:** When we were talking about the Prince's Council, one was left with a rather confused picture. It has been rather confusing the way you switch money between capital and revenue as well. Who makes the final decision? How are those decisions made, particularly on financial matters? Is it generally discussed? Do we have a democratic vote at the end of the Council? Does the Prince just say, "Thank you for what you have said, I decide so-and-so"?

**Mr Ross:** There is a very thorough reporting procedure which goes through our own internal controls, our own internal committees and then goes to the Prince's Council. If it is a capital item, it then gets passed through the Treasury under the various warrants which exist for the process of these being approved.

**Q302 Mr Williams:** So if there was a conflict between the Prince and the system, the Treasury would come into play?

**Mr Ross:** Correct.

**Q303 Mr Williams:** Have there been any such cases?

**Mr Ross:** Between the Prince and the system? We are constantly managing a balance but our criteria are to provide an income for the Prince, to provide and protect the capital assets—

**Q304 Mr Williams:** How often have you had to call the Treasury in to overrule the Prince or see if it wants to overrule him?

**Mr Ross:** We have not had to.

**Q305 Mr Williams:** You have not? I see. That is interesting. Coming back to the question of governance, which is obviously a matter of some concern to us. Obviously, as you appreciate, we think the C&AG should have a role. If he should not have a role what is the point in making you present your accounts to Parliament, if we cannot look into them properly?

**Mr Ross:** The presenting of the accounts was a process which was set up 180 years ago. It is something which has been changed by direction by the Treasury on a regular basis and the direction that we receive the accounts in is set out. This is in accordance with their direction. It follows accountancy standards and it follows company accounts.

**Q306 Mr Williams:** Could the Treasury change those directions unilaterally?

**Mr Ross:** The Treasury has very substantial powers in these issues but equally the Prince of Wales has right as the private owner of the estate to make the decisions about the appointment of accountants and other such things.

**Chairman:** I am afraid it has been a long afternoon, gentlemen, but we have to break one more time for another division. We are almost at the end.

**Mr Jenkins:** Are we going to come back, Chairman?

**Chairman:** You and Mr Allan want to ask further questions unless you want to forego that right?

**Q307 Mr Jenkins:** No. Can I quickly put the question. I am glad we got an answer to Mrs Browning, and you are going to table a list of qualifications of the internal auditors, but Mr Clarke, you have another problem because you do not list the external valuers as the regulations ask you to do. Would you list your external valuers?

**Mr Clarke:** Would we list our external valuers?

**Q308 Mr Jenkins:** Yes.

**Mr Clarke:** Yes.

**Q309 Mr Jenkins:** And tell us how they got their jobs, did they tender for it?

**Mr Clarke:** They competitively tender.

**Chairman:** Mr Allan still wants to ask questions so we will have to come back. I am sorry. It will be quite quick after this short break.

*The Committee suspended from 7.06pm to 7.17pm  
for a division in the House*

**Q310 Chairman:** Gentlemen, did you hear Mr Jenkins' question while the bell was ringing? Would you like him to repeat it? Can we take it that you did hear it and you will provide a note?

**Mr Clarke:** I think it was addressed to me, Chairman. Was it in relation to would we list in our accounts the valuers that we had used in producing values? Yes, in answer to the question.

**Q311 Mr Jenkins:** Also, I want to know how they got the job, if it was open to tender?

**Mr Clarke:** Yes. In the case of very large valuations, the rural valuation is clearly the largest, that is done at tender.

**Q312 Mr Jenkins:** Mr Ross, just to clarify the situation with Mrs Browning's question, when she said would you list your internal valuers with their qualifications on the report as well?

**Mr Ross:** We can do.

**Mr Jenkins:** The other question to Mr Ross, I was totally amazed when Highgrove came out, Chairman, I thought honestly that the Prince of Wales bought Highgrove out of his personal money and he had got his foot on the property ladder. I did not realise he had not.

**Q313 Mr Allan:** A very specific one, Mr Clarke, you said from April the Department of Constitutional Affairs is picking up the cost of the magistracy in Lancashire.

**Mr Clarke:** Yes.

**Q314 Mr Allan:** Does that mean that all the extra money, which is quite considerable, £200-odd thousand will be going into the charitable fund?

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 The Accounts of the Duchies of Cornwall and Lancaster
 

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*Mr Clarke:* Yes.

**Q315 Mr Allan:** The other question, finally, to both of you, you have done very well with your capital growth because you are in property and property has done very well. If you were to do a church commissioners, as in to make some investment decisions which are not so good, and you came before us and the capital has gone down, who should we blame for that? Who is the person who is responsible after all this talk, if you came up to us and said the capital has gone down 5% because we made some bum decision, who should we go after?

*Mr Clarke:* As far as Lancaster is concerned, pre-2000 it would have been down to me; I am delighted to say that post-2000 due to the revocable delegation, it is down to Council, of which I am one member.

**Q316 Mr Allan:** The Council collectively. In the case of Cornwall?

*Mr Ross:* I am the executive and then the process of what we invest in and what we sell is subject to these warrants that are run by the Treasury.

**Q317 Mr Allan:** You would blame the Treasury for having let you do it?

*Mr Ross:* Mr Glicksman may answer you further but I would be responsible.

**Q318 Mr Allan:** Mr Glicksman, do you agree with Mr Ross?

*Mr Glicksman:* Yes. I do not think we consider, when looking at proposals from the Duchy, whether it would be a good investment as opposed to the statutory criteria that we are required to look at.

**Chairman:** Mr Davidson has a supplementary.

**Q319 Mr Davidson:** Can I just clarify with Mr Ross one point you made earlier on about your role to protect the capital. Did I catch it correctly when you said that all it needed to do was to grow in line with inflation? I draw from that, that you would regard yourself free to have the Prince of Wales drawing anything which is above simply the rate of inflation of the capital? Or did I misunderstand you? What do you mean by “capital protection”?

*Mr Ross:* It is the interpretation of what is providing an income for the future Dukes. If you provide an income for the future Dukes, we cannot damage the existing capital asset.

**Q320 Mr Davidson:** So the existing capital figure plus inflation is sufficient, in your view?

*Mr Ross:* We regard that as an absolute minimum, but that is a legal requirement, yes.

**Q321 Mr Davidson:** Can I ask Mr Clarke whether or not there is anything in the running of the Duchy of Cornwall from which you think you can learn?

*Mr Clarke:* I think in all fairness I have learnt more about the Duchy of Cornwall this afternoon than I knew before.

**Q322 Mr Davidson:** That applies to all of us really!

*Mr Clarke:* I have not been following the Duchy of Cornwall and what they do with a great degree of detail, so really I think it is an unfair question; I could not tell you.

**Q323 Mr Davidson:** Would it be reasonable for us to draw the conclusion there is a distinction between the way in which Lancaster and Cornwall are run, and that is the difference between a professional and amateur, with you being a much more professional outfit?

*Mr Clarke:* That is very flattering but I do not think I can comment one way or the other. We are different, we do operate in different ways, our governance is different, but that has really evolved over the years and over the centuries.

**Q324 Mr Davidson:** Mr Ross, do you think that is a fair comparison?

*Mr Ross:* No, we are very different operations but I think you have to look at the results. You will see there is nothing very amateur about the way we do our business.

**Q325 Mr Davidson:** Remind me again, can you give us a list of the properties and can you estimate the value of the capital gains you have made, which I would have thought was standard?

*Mr Ross:* We were talking about a list of properties from the environmental and sustainability point of view.

**Q326 Mr Davidson:** No, just give us a list. It is a question of competence here. Are you able to give us a list of the properties?

*Mr Ross:* It is a private estate. Under the terminology, it is a private estate.

**Q327 Mr Davidson:** Is it not in trust for the nation?

*Mr Ross:* The Prince of Wales and the Duchy of Cornwall are entitled to some privacy about this.

**Q328 Mr Davidson:** Is it not held in trust for the nation?

*Mr Ross:* It is a private estate. There are areas of considerable public interest, very considerable public interest, and I think those are accounted for, as I have said during the afternoon, by the procedures we have in place.

**Mr Davidson:** Thank you, Chairman.

**Q329 Mr Williams:** Explain to me as a non-accountant, this item which appears every year, “total recognised capital gains”. For example, in 1993 it was £11,474,000. I have totalled up from 1995 to today in each of the accounts and make it £225 million, but I do not know what “recognised capital gains” are since you seem to be implying to Mr Davidson that you did not notch up capital gains.

*Mr Ross:* I am beginning to see where Mr Davidson’s figure comes from. The point is, the vast majority of our gains which you are identifying are not realised.

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 The Accounts of the Duchies of Cornwall and Lancaster
 

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**Q330 Mr Williams:** As you are identifying.

**Mr Ross:** No, the ones you are talking to me about. They are not realised, and you do not pay any tax on a gain which is not sold.

**Q331 Mr Williams:** Again it comes back to this issue of clarity. I look at this, full of goodwill towards you, and I see these “recognised capital gains” but you tell me they are not recognised and they are not capital gains, otherwise it is a perfectly correct description.

**Mr Willis:** They are recognised gains. Any other company would produce a statement of total recognised gains and losses. We are following best practice.

**Q332 Mr Williams:** One final point which I raised previously, and I promise you this is my last question, this £2.3 million which was distributed from undistributable reserves—and I do not know how it can be undistributable and then distributed but there we are—Prince Charles had £833,000 at one stage in 1993 and £2.3 million in 1999 from you for purchasing his timber rights. I would have thought the timber rights were the Duchy’s timber rights. Did he plant an apple tree in his back garden or something? What were his timber rights? Then, strangely enough, in 1999, you finally got rid of the whole of that, dispersed it in various ways on which I would like a fuller note, if I may. Then in a footnote you point out that from the end of that financial year now timber rights and grown timber will be treated as capital, therefore non-distributable. Why until you got rid of all the money, a lot of it to the Prince, was it non-distributable and revenue, and now, suddenly, you have changed your position and it has become capital. I do not understand how intellectually you get where you are?

**Mr Ross:** Timber is a crop and the crop, unlike most crops, takes 50 to 150 years to grow. It is harvestable when it is mature. The asset, the timber, belonged to the Prince of Wales. He could either have sold it to somebody else—

**Q333 Mr Williams:** It belongs to the Duchy.

**Mr Ross:** Technically I have used the wrong language, I am sorry. It was on the revenue account and therefore it was on the revenue account when the timber was felled or that asset was sold, because it had been paid for all the way through by His Royal Highness was something which was distributable through the normal account. The Prince of Wales chose a point of time when this timber should be sold and it was a commercial decision made by him. The commercial decision by the Duchy of Cornwall was that it was right for us to buy. It was valued independently and it is now entirely on the capital account.

**Mr Williams:** I would like to look at that answer. I may come back then with some written questions. Thank you.

**Chairman:** Right, gentlemen, that concludes our hearing. It has been a very long afternoon but we have waited since 1337 to have this inquiry so I think it is right that it should be done properly. I hope you feel, from the questions which have been asked and the answers you have been able to give, that there is absolutely nothing for the Treasury or the Duchies to fear about parliamentary scrutiny. To sum up, we believe the two Duchies may be private estates, in a special sense, as you have described them several times today but it is true, also, to say that their accounts are presented to Parliament, as you reminded us; certainly it is the case with Cornwall that the Treasury is closely involved. This makes them, we believe, quite different from other private estates, such as the Grovesnor Estate, and we believe it would assist Parliament, gentlemen, in examination of your accounts for the Comptroller and Auditor General who helps in these matters, preferably to be your external auditor, certainly to have access to the Duchies books and records. We have made considerable progress this afternoon and we are very grateful to you for coming here this afternoon. Thank you.

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 Correspondence between the Committee of Public Accounts and the Duchy of Cornwall
 

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**Letter from the Chairman of the Committee to the Secretary of the Duchy of Cornwall**

You may recall that in 2003 the National Audit Office prepared at the request of this Committee a paper which set out the various sources of funds for the Royal Family and the audit and accountability arrangements for each. The paper covered the Accounts of the Duchy of Cornwall which are presented to Parliament under the Duchy of Cornwall and Duchy of Lancaster Act 1838.

The Committee would be grateful for your comments on some matters which have arisen from an examination of the latest Accounts of the Duchy of Cornwall and on matters relating to the non-distributable revenue reserves which existed in previous years. These are set out in the Annex to this letter [below]. It would of course assist the Committee in pursuing these matters if the Comptroller and Auditor General could have access to the books and records of the Duchy of Cornwall.

*Edward Leigh MP*  
 Chairman  
 Committee of Public Accounts

6 May 2004

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### Matters relating to the Financial Statements of The Duchy of Cornwall

1. Regarding the way the Duchy of Cornwall is managed and whether there are wider lessons to be drawn from the Duchy's experience, the Committee would like to know:

(a) How the need to generate a revenue surplus for the Duke of Cornwall affects the way the Duchy's business is run.

(b) How the Duchy balances the need for long term capital growth in its investments with the need to achieve the income required in the short term to generate surplus funds.

(c) How the Duchy balances the need for the financially successful management of the estate with the need for its longer-term sustainable management.

(d) The arrangements for the payment of the Duchy's surplus income to the Duke of Cornwall. Is the amount paid, for example, as a lump sum or in periodic instalments?

(e) On what basis the Proper Officers concluded that it was no longer appropriate to make repayments to capital from revenue for improvement works undertaken, a change implemented in 2002–03 which has the effect of increasing the surplus payable to the Duke of Cornwall. It would be helpful to know why the change is not referred to in the Accounting policies and the prior year figures not restated, and whether Treasury approval was obtained for this change in accordance with Section 7 of the Duchy of Cornwall Management Act 1982.

(f) Whether the Duchy complies with the provisions of the [Sir Robert] Smith Report "Audit Committees—Combined Code Guidance", published in January 2003.

2. Regarding the presentation of information in the Duchy's 2002–03 accounts, and having regard to the Accounts Direction, the Committee would welcome views on whether greater transparency would be achieved by:

(a) Providing more information about income and expenditure in the primary statements, in keeping with profit and loss account format 2 in Schedule 4 of the Company Act (as referred to in the Accounts Direction). At present the majority of information is in the notes and not in the primary statements.

(b) Providing information about the impact of financial instruments (such as bonds, debtors, creditors, shares) on the Duchy's risk profile. Such information would help the reader to see how any risks are being managed.

(c) Reviewing the decision to treat the Duchy as one class of business (note 2 to the Accounts), and providing a segmental analysis of the three sectors—agricultural, commercial and residential—from which the bulk of the Duchy's income is derived.

(d) Setting out the emoluments of individually named senior management and members of the Prince's Council, and explaining who determines the emoluments paid to members of the Prince's Council.

(e) Stating whether or not there are bad debts or debts written off, post balance sheet events, contingent liabilities, capital commitments at the year end and third party assets (such as deposits held on behalf of tenants).

(f) Showing the proceeds of *bona vacantia* (the estates of deceased intestates resident in Cornwall and dying without next of kin) on the face of the Accounts.

3. Regarding the non-distributable revenue reserves which existed in previous years, the Committee would like to know:

(a) When the reserves were set, their purpose, why a sum of £833,037 was transferred to the distributable reserves and paid to His Royal Highness in 1993, when His Royal Highness received the money, and what relationship this had to His Royal Highness's decision to be voluntary subject to income tax from April 1993.

(b) The circumstances surrounding the purchase of timber rights from His Royal Highness in 1998 (using the non-distributable revenue reserves), the location of the trees, and what led to His Royal Highness being able to sell this asset.

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**Letter from the Secretary of the Duchy of Cornwall to the Chairman of the Committee**

I write to thank you for your letter of 6 May and note that the Accounts of the Duchy of Cornwall were a subject that has been considered by the National Audit Office at the request of the Committee of Public Accounts.

We will shortly be responding to the comments that have arisen from the examination of the latest Accounts of the Duchy of Cornwall and reply accordingly. We are, at present, in the middle of the process of auditing and preparing for the presentation of our Accounts for the year end to the 31 March 2004. When these are cleared we will put the necessary resource to replying to the queries you have raised.

*W R A Ross*  
Secretary, Duchy of Cornwall

21 May 2004

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**Letter from the Secretary of the Duchy of Cornwall to the Chairman of the Committee**

Further to your letter of 6 May and my reply of 21 May, I am now in a position to respond to the various detailed points which you have raised.

The Duchy of Cornwall is a unique organisation created by Charter in 1337 and is governed by the Duchy of Cornwall Management Acts 1863 to 1982. Within the framework set out within the Management Acts, the Duchy treats the subject of the presentation of its financial accounts as being a matter of the highest importance; this includes following best practice and taking external professional advice wherever necessary.

With regard to the position of auditor, I confirm that the Duchy auditor is Mr Rodger Hughes who is Managing Partner, Clients & Markets at PricewaterhouseCoopers LLP. The audit programme includes an interim and final audit by a team from PricewaterhouseCoopers LLP which ultimately concludes with a signed audit report within the accounts presented to Parliament. In light of this existing strong independent audit arrangement, I do not consider it appropriate for there to be an additional audit of the Duchy of Cornwall by the Comptroller and Auditor General.

My responses to the numbered points raised in the annex to your letter of 6 May 2004, are as follows:

1(a) The Duchy of Cornwall's primary function is to provide an income for the present and future Dukes of Cornwall.

The Duchy is run as a commercial operation, subject to certain constraints. The Duke of Cornwall is entitled to the Revenue account surplus, which reflects the beliefs and principles of the current Duke. It is the Duke's wish to apply social, environmental and agricultural good practice within the overall management approach.

For example, the Duke chooses in certain instances not to charge market rents for residential and other lettings; a proportion of income is expended on conservation works within the rural community; and the estate is maintained to a higher standard than perhaps would be the case with a commercial organisation with external shareholders.

1(b) Unlike most organisations, the Duchy is able to take a very long-term view in regard to investment strategy. There are no stakeholders requiring rapid short-term returns. Recent successful examples of this long-term strategy are the development at Poundbury, Dorchester and the acquisition of the Prudential agricultural portfolio in 2000. In both cases, it is likely that the projects will take 15–20 years before the full financial benefit in both Capital and Revenue terms is obtained. The acquisition of the Prudential agricultural portfolio has also given the Duchy the opportunity to restructure the Capital base. It is worth stressing that the majority of the Duchy's rural property portfolio is heavily reversionary in nature.

The Prince's Council and the Finance and Audit Committee continually monitor the balance between capital and income returns. The audited accounts to 31 March 2004 show a simplistic income return of approximately 2.9% with the Capital value of the Duchy having increased by over £100 million in the last two years. It is very difficult to accurately forecast between income and capital returns, particularly in the very buoyant property market which has now existed for several years.

1(c) The Duchy sees the issue of success of the estate and the need for long term sustainable management as very much complimentary criteria and not as a threat to commercial success.

1(d) The Duchy surplus is paid on account to the Duke of Cornwall throughout the financial year. For example, the audited accounts to 31 March 2004 disclose that there was a surplus of £11.9 million of which £10.2 million was paid over to the Duke during the year.

1(e) In line with best practice, the proper officers continually monitor the accounting practices adopted by the Duchy to ensure that they are relevant, reliable and aid understandability.

In accounting terms, property held for investment remains subject to Statement of Standard of Accounting Practice (SSAP) 19 (Investment Properties) issued in 1981. SSAP 19 exempts investment properties from depreciation (FRS 15—"tangible fixed assets" continues to exempt investment properties

from its remit). The logic is that investment properties are not being consumed within the business. Repayments to Capital was in essence, a depreciation charge and this treatment was not in line with standard and best practice.

The cessation of repayments to Capital was a change in accounting practice and did not therefore qualify to be a prior year adjustment under applicable accounting standards. The change was disclosed within the “Results for the Year” narrative in the Parliamentary Accounts.

The change in practice was implemented with the approval of HM Treasury and the Duchy Auditor. A Section 7 Treasury warrant was issued on the 28 April 2003 authorising the accounting treatment.

1(f) The Duchy is aware of the contents of the Sir Robert Smith Report “Audit Committees—combined code guidance”, published in January 2003. The guidance is for listed companies. However, the Duchy has taken on board the recommendations where it is considered suitable for the Duchy’s particular circumstances.

The Duchy has a Finance and Audit Committee which is comprised of two executives and four non-executives. Two of the non-executives have direct financial experience. The Finance and Audit Committee meet 4–5 times per year including an annual meeting with the Duchy Auditor. The Committee monitors the Duchy’s internal procedures and reviews accounting practices, judgements and strategy.

2(a) The Duchy considers the primary statements (the income and expenditure account, Revenue and Capital Balance Sheets, Statement of Total Recognised Gains and Losses and cash flows) to be in the prescribed format and are transparent to the reader of company accounts.

The notes are integral to the accounts. To disclose the note information within the face of the primary statements would, we believe, lead to confusion and information overload.

2(b) The Duchy is a risk-averse organisation. The impact of debtors and creditors on the risk profile is minimal. Almost all of the Duchy financial assets are valued at market value and are relatively liquid. It is not considered that further information relating to risk would be useful for the reader of the accounts.

2(c) The Duchy has only one class of business, being that of property investment. For the reader of the accounts it is thought to be of benefit to disclose income and capital values for the three main types of investment property which the Duchy owns. Each category of property has different investment characteristics.

2(d) The Duchy does not consider it to be of assistance to the reader of the accounts to disclose the names of individuals within the salary bandings. There is only one member of the Prince’s Council who is paid a salary. Duchy policy is to pay market rates for services rendered. The Duchy of Cornwall Remuneration Committee sets salary levels. The Duchy has no external shareholders for whom this information would generally be of benefit, although summaries of salary statistics are presented to meetings of the Prince’s Council.

2(e) The amount of bad debts, debts written off and third party assets held are immaterial and it is considered that disclosure would add little to the accounts. The Duchy had no material contingent liabilities or capital commitments at the year end and hence no disclosure was required. If these items become material in the future, the appropriate disclosure will be made.

2(f) The receipts from Bona Vacantia do not pass through the Revenue account as all income is paid (after expenses and ex gratia payments) to the Duke of Cornwall’s Benevolent Fund. The balance due to the Benevolent Fund is immaterial.

3(a) The sum of £833,000 arose when the Duchy adopted accrual accounting in 1983 and was used for working capital purposes, in simplistic terms it was an interest free loan from HRH. During the discussions regarding taxation in 1992, it became apparent that it was vital to make a distinction between monies belonging to the Duchy and that which belonged to HRH.

3(b) In 1998, the Duchy owned 989 hectares of woodland in Cornwall, of which 786 hectares were planted with softwoods that were managed commercially. 750 of the 786 hectares had been planted since the Prince of Wales became Duke of Cornwall.

The 989 hectares were arranged in 45 discreet blocks, averaging 22 hectares. In many cases the areas concerned are an integral part of the Duchy estate and not practically separable from the tenanted land. The presence of the woodland adds considerably to the value of Duchy property holdings within the vicinity.

The cost of planting and maintaining the timber had been met from the Revenue account and the associated income from felling credited to the Revenue account. The growing timber was accounted for as part of the Revenue balance sheet and the value treated as an unrealised surplus, only distributable when the timber was cut.

In effect, the Duke of Cornwall had created and carried on personally within the Duchy, a woodlands business. The main practical problem was that the investment could only be realised when the timber was felled. On ceasing to be Duke of Cornwall, he or his estate would not be entitled to the value of the investment in the growing timber. This situation was inequitable as far as the Prince of Wales was concerned and could have led to inappropriate policies such as clear felling and minimal maintenance.

From the Duchy's point of view, as part of its Asset Diversification policy, and as part of its estate management, it made good financial sense to acquire the woods as a long-term investment. The Duchy has subsequently added to its woods portfolio by purchasing over 1,200 acres of commercial woodland from the Prudential in May 2000.

An independent market valuation in 1998 derived a figure of £2,300,000, which was ultimately paid by the Duchy of Cornwall. All income and expenditure from the woods is now credited to the Capital account. The transaction was approved by the Duchy Auditor.

I hope this summary provides adequate detail in answering the questions that you have raised on behalf of your committee. If I can be of any further assistance, please do not hesitate to contact me.

*W R A Ross*  
Secretary, Duchy of Cornwall

7 July 2004

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### **Correspondence between the Committee of Public Accounts and the Duchy of Lancaster**

#### **Letter from the Chairman of the Committee to the Chief Executive and Clerk of the Council, Duchy of Lancaster**

You may recall that in 2003 the National Audit Office prepared at the request of this Committee a paper which set out the various sources of funds for the Royal Family and the audit and accountability arrangements for each. The paper covered the Accounts of the Duchy of Lancaster which are presented to Parliament under the Duchy of Cornwall and Duchy of Lancaster Act 1838.

The Committee would be grateful for your comments on some matters which have arisen from an examination of the latest Accounts of the Duchy of Lancaster, and which are set out in the Annex to this letter [below]. It would of course assist the Committee in pursuing these matters if the Comptroller and Auditor General could have access to the books and records of the Duchy of Lancaster.

*Edward Leigh MP*  
Chairman  
Committee of Public Accounts

6 May 2004

#### **QUESTIONS RELATING TO THE REPORT AND ACCOUNTS OF THE DUCHY OF LANCASTER FOR THE YEAR ENDED 31 MARCH 2003**

1. Regarding the way the Duchy of Lancaster is managed and whether there are wider lessons to be drawn from the Duchy of Lancaster's experience, the Committee would like to know:

- (a) How the need to generate a revenue surplus for Her Majesty The Queen affects the way the Duchy's business is run.
- (b) How the Duchy balances the need for long term capital growth in its investments with the need to achieve the income required in the short term to generate surplus funds.
- (c) How the Duchy balances the need for the financially successful management of the estate with the need for its longer-term sustainable management.
- (d) The arrangements for the payment of the Duchy's surplus income to the Privy Purse. Is the amount paid, for example, as a lump sum or in periodic instalments?
- (e) In view of the reduction in the level of income derived from mineral rents and royalties in 2002–03 (£180,164 in 2002–03 compared with £662,320 in 2001–02), what challenges the Duchy faces in maintaining revenues in this area.
- (f) Whether the Duchy complies with the provisions of the [Sir Robert] Smith Report "Audit committees—Combined Code Guidance", published in January 2003.

2. Regarding the presentation of information in the Duchy's accounts, and having regard to the Accounts Direction, the Committee would welcome views on whether greater transparency would be achieved by:

- (a) Providing an assessment by the Duchy of its ability to continue as a going concern.
- (b) Providing information about the impact of financial instruments (such as bonds, debtors, creditors, shares) on the Duchy's risk profile. Such information would help the reader see how any risks are being managed.
- (c) Providing a segmental analysis of the three sectors—agricultural, commercial and residential—from which the bulk of the Duchy's income is derived.

- (d) Stating whether or not there are bad debts or debts written off, post balance sheet events, contingent liabilities, capital commitments at the year end and third party assets (such as deposits held on behalf of tenants).
- (e) Stating whether or not there are any related party transactions, such as estate staff living in properties owned by the Duchy of Lancaster or related party transactions in relation to senior staff.

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**Letter from the Chief Executive and Clerk of the Council to the Chairman of the Committee**

Thank you for your letter dated 6 May. I note the questions you have raised and I will discuss these with Members of the Duchy Council at their next meeting on Tuesday 18 May.

I will revert to you shortly after this meeting.

*Paul R Clarke*  
Chief Executive and Clerk of the Council  
Duchy of Lancaster

*11 May 2004*

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**Letter from the Chief Executive and Clerk of the Council, Duchy of Lancaster**

Further to my letter of 11 May 2004 I apologise for the slight delay in formally responding to you with the answers to the questions relating to the Report and Accounts of The Duchy of Lancaster.

I have attached these as a separate document which uses the same enumeration as in your Annex. Questions 1(a), (b) and (c) are very much interrelated and I have dealt with these as a single entity.

You have requested that consent be granted for the Comptroller and Auditor General to have access to the books and records of the Duchy of Lancaster. It is not believed that anything will be gained by such consent being given. It is felt that the impending audited Parliamentary Accounts, together with the co-operation of the Duchy Council and Management, will provide you and your Committee with sufficient relevant information [which is not commercially sensitive nature.]

If any points with the answers are unclear then please do not hesitate to contact me.

*Paul R Clarke*  
Chief Executive and Clerk of the Council  
Duchy of Lancaster

*11 June 2004*

**QUESTIONS RELATING TO THE REPORT AND ACCOUNTS OF THE DUCHY OF  
LANCASTER FOR THE YEAR ENDED 31 MARCH 2003**

1. Regarding the, way the Duchy of Lancaster is managed and whether there are wider lessons to be drawn from the Duchy of Lancaster's experience, the Committee would like to know:

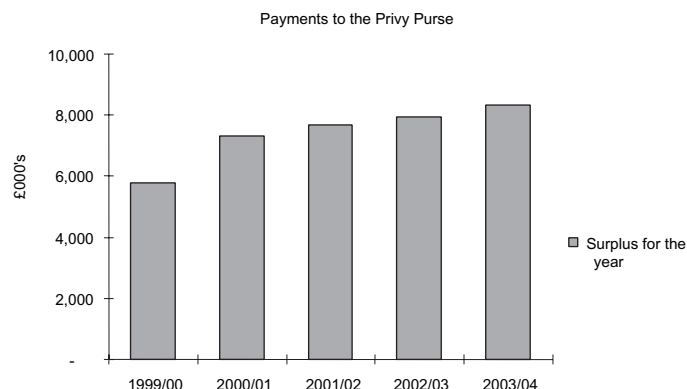
- (a) How the need to generate a revenue surplus for Her Majesty The Queen affects the way the Duchy's business is run.
- (b) How the Duchy balances the need for long term capital growth in its investments need to achieve the income required in the short term to generate surplus funds.
- (c) How the Duchy balances the need for the financially successful management of the estate with the need for its longer-term sustainable management.

The generation of revenue surplus for Her Majesty The Queen has no adverse effect on the way the Duchy's business is run. Each year Council considers and approves a budget and five year forecast against a number of specific and realistic targets which seek to achieve an equitable balance between income yield, income growth and capital growth.

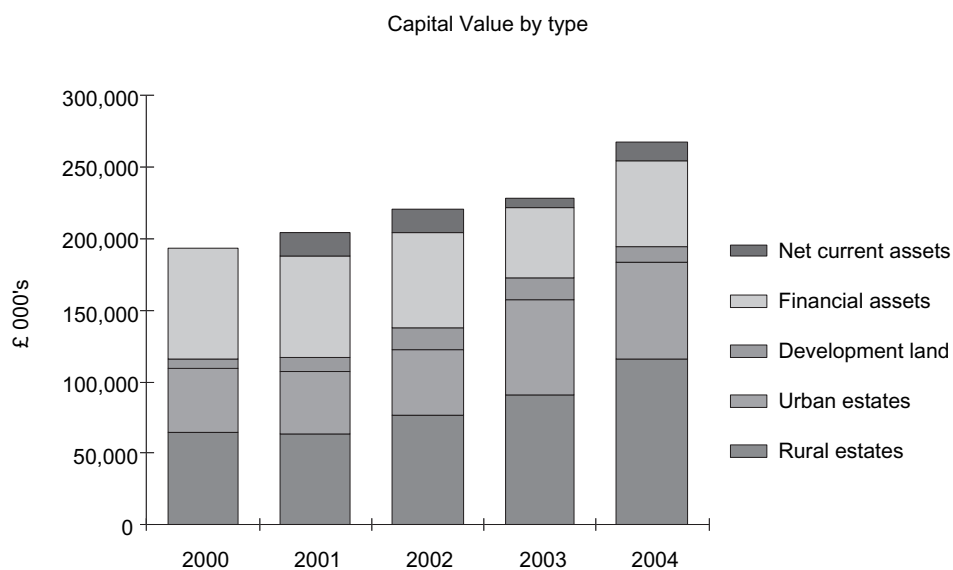
At present these targets are:

- 1. To achieve a Net Operating Income of £8.0 million by March 2004 (set in 2001) and seek to grow that income in real terms by 2.5% per annum over RPIX.
- 2. To achieve real Capital Growth of 1% per annum over RPIX, measured over a three year period.

The chart below shows performance over the last five years, inclusive of the unaudited results for the last financial year, 2003–04.



	1999–2000	2000–01	2001–02	2002–03	2003–04
Payment to Privy Purse (£'000)	5,908	7,307	7,686	7,953	8,330
% increase	– 1.0%	23.7%	5.2%	3.5%	4.7%
3 year annualised				4.4%	



	2000	2001	2002	2003	2004
Capital Value (£'000)	192,988	203,590	220,858	227,568	267,781
% increase	9.8%	5.5%	8.5%	3.0%	17.7%
3 year annualised				9.5%	

Following the approval of the audited accounts (29 June 2004) Council will review the targets and amend them as may be appropriate in current market conditions. These provide the foundations for management to prepare the budget and forecast for the coming financial year (2005–06).

The Council has also tasked management to try to provide an overall Net Operating Income equating to 4% per annum of the Capital Value of the Portfolio. This has not been achieved due to the recent strength of Capital Growth and currently stands at 3.5%. We are currently undertaking an exercise to gradually rebalance the portfolio to provide a 4% yield by March 2007, which is felt to be realistic without comprising the Capital Growth Target, from a mixed portfolio such as that held by the Duchy.

(d) The arrangements for the payment of the Duchy's surplus income to the Privy Purse. Is the amount paid, for example, as a lump sum or in periodic instalments?

The surplus income of the Duchy is paid by instalments. The monthly payments are made by reference to the budgeted surplus and the balance is paid at the end of the year, once the accounts have been externally audited and approved by Council.

(e) In view of the reduction in the level of income derived from mineral rents and royalties in 2002–03 (£180,164 in 2002–03 compared with £662,320 in 2001–02), what challenges the Duchy faces in maintaining revenues in this area.

The Duchy reviews its minerals interests and the strategy that should apply on an annual basis. Mineral assets are incidental to the larger landholding and have not been acquired as specific investments. As can be seen, the existing portfolio is becoming depleted of operational interests in the short term.

Council approved the strategy for the mineral assets to be:

- (a) All mineral interests on land owned or on land sold where mineral rights are reserved are to be digitally mapped and registered with the Land Registry. This work has commenced.
- (b) Long term working relationships are to be fostered with mineral operators through the Duchy mineral agent.
- (c) While the Duchy would like to increase its mineral income and Royalties the opportunities to purchase mineral assets and interests rarely come to the market and the Duchy would be unlikely to be able to compete with the operators. However, when looking at purchases of land the mineral potential should always be considered and not overlooked.

This strategy will be incorporated into the Investment Strategy Guidelines used by Duchy Surveyors when considering purchases or sales of investments.

(f) Whether the Duchy complies with the provisions of the [Sir Robert] Smith Report “Audit committees—Combined Code Guidance”, published in January 2003.

We do not currently have an audit committee. To the extent that is possible within its governing Statutes, the Duchy seeks to model itself on a small public limited company and as such Corporate Governance is an active consideration. A paper on the subject was discussed at the last Council Meeting and the Chief Finance Officer was tasked with reviewing our practices against the Combined Code and to report back to Council. The Council agreed that any Corporate Governance adopted should be appropriate to the size and nature of our organisation.

2. Regarding the presentation of information in the Duchy’s accounts, and having regard to the Accounts Direction, the Committee would welcome views on whether greater transparency would be achieved by:

- (a) Providing an assessment by the Duchy of its ability to continue as a going concern.

The Parliamentary Accounts state, within the report of the Proper Officers, that the Proper Officers prepare the accounts on a going concern basis. This means that the Proper Officers have a reasonable expectation that the Duchy has adequate resources to continue in operational existence for the foreseeable future.

This also means that this disclosure would change if the Proper Officers knew of something that would impact upon this view, and the accounts would reflect this accordingly.

It is our opinion that any further statement on our ability to continue as a going concern would not achieve greater transparency.

- (b) Providing information about the impact of the financial instruments (such as bonds, debtors, creditors, shares) on the Duchy’s risk profile. Such information would help the reader to see how any risks are being managed.

The Financial Investments of the Duchy are laid out in Note 13 to the Parliamentary Accounts. Readers of the accounts can see where the Duchy has its Financial Investments, and therefore can get a basic understanding of the risk profile.

The accounts also provide a statement, within the report of the Proper Officers, on the system of internal controls.

It is our opinion that any further statement on our risk profile would not add meaningfully to a reader’s understanding of the management of financial risks.

- (c) Providing a segmental analysis of the three sectors—agricultural, commercial and residential—from which the bulk of the Duchy’s income is derived.

Segmental analysis as suggested is already included under Notes (2) and (3) to the Parliamentary Accounts. In addition, the finance section of the website ([www.duchyoflancaster.co.uk](http://www.duchyoflancaster.co.uk)) includes further segmental analysis.

It is our opinion that transparency on segmental analysis is currently achieved.

- (d) Stating whether or not there are bad debts or debts written off, post balance sheet events, contingent liabilities, capital commitments at the year end and third party assets (such as deposits held on behalf of tenants).

The accounts have been prepared in line with applicable accounting standards. This includes UK legal and regulatory requirements that you would expect to see in a set of unlisted company accounts.

It is our opinion that we can achieve the appropriate level of transparency and disclosure by modelling our report and accounts on a standard set of UK unlisted company accounts.

(e) Stating whether or not there are any related party transactions, such as estate staff living in properties owned by the Duchy of Lancaster or related party transactions in relation to senior staff.

We take note of this comment and will discuss this within the impending 2004 Parliamentary Accounts Review. Currently, we have only two estate workers and the Chaplain to the Savoy Chapel who live in Duchy properties. In addition 19 Duchy Pensioners (all of whom were rural estate workers) are provided with housing on concessionary terms during their lifetime and in some cases the lifetime of their spouse. This arrangement arises either by contract or through clear understandings entered into during the employees' employment and was quite normal practice on many rural estates in the past.

The remuneration of and arrangements with each member of Council, senior officers and advisors are disclosed in the Accounts. In addition they are required to complete a "Declaration of Interest" form on an annual basis to identify any conflict of interest that may exist.

There are no other related party transactions with any members of staff of which I am aware. However, it may well assist transparency to disclose this fact.

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**Response from The Duchy of Cornwall to supplementary questions submitted by Rt Hon Alan Williams MP**

1. *When did the Duchy buy Highgrove?*

Highgrove House, plus 350 acres, was acquired by the Duchy of Cornwall in 1980.

*What was the purchase price?*

£865,000.

*What were the other costs, if any, associated with the purchase?*

The approximate costs were:

Stamp Duty £17,300

Legal Fees £7,700

Agents Fees £10,500

*Was Highgrove purchased through Capital A/c? Can the Duchy provide the Committee with a copy of how it was covered in the Duchy Accounts?*

The purchase cost was paid for by the Capital account. The Duchy accounts in 1980 had four pages compared with 26 pages to 31 March 2004. An extract from the Capital account as at 31 December 1980 is attached. The "purchase of estates" figure of £920,000 in the accounts to 31 December 1980 relates primarily to the Highgrove acquisition.

*Does the Prince of Wales's payment go to the Revenue or to the Current A/c (payment for Highgrove). Is it annual, or a lease paid up-front?*

The present rental income for Highgrove House and land of £336,000 per year received from the Prince of Wales is credited to the Revenue account. There was no lease premium paid by His Royal Highness. Rent is payable on a monthly basis. Rent is paid to ensure that no costs (official or private) incurred in respect of non-Duchy activities are met by the Duchy of Cornwall.

2. *Re: the two references to repayments of £14 million to Capital A/c—what was the total indebtedness; when did it arise; what was such a large injection to Revenue needed for; and how was the borrowing recorded in the Accounts?*

Until 2003, improvements to buildings were depreciated by way of a charge through the Revenue account. The £14.2 million represents those improvements that had not yet been depreciated and if this practice had been continued they would have been written down over the following 15 years. This practice was discontinued in 2003 in line with best accounting practice.

When investment properties are re-valued on an annual basis it is not standard accounting practice to depreciate these assets. Full valuations for the Duchy of Cornwall were first introduced in 1999. The accounting practice could have changed in 1999, however it was considered more appropriate to await a period of time for the valuation process to be established. The change in practice was approved by the Duchy Auditor and by HM Treasury.

3. *What gave rise to the £10 million at 10%+, and why was such a large rate required?*

In 1989, the Duchy borrowed £10 million of Capital at a fixed rate of 10.48% for 25 years. The interest rate applicable represented a small premium on the appropriate 25 year bond rate at that time. The bank base rate was 13.84%. The borrowing was for the specific purpose of acquiring commercial property and was approved by HM Treasury. The interest is paid from the Revenue account.

4. *When did the Non-Distributable Reserve start? Can the Duchy provide the Committee with each year's entries (including footnotes) from the Accounts?*

With the adoption of the accruals basis of accounting in 1983. An analysis of the movement in the Non-Distributable Reserve is shown below, on a year-by-year basis.

5. *Why did the Duchy treat growing timber differently at different times, and why did the early references to the purchase of the Prince of Wales's timber rights include the word "land", which subsequently disappeared?*

After the Prince of Wales became more closely involved with the Duchy of Cornwall in the late 1970's, the annual investment in planting and maintaining woodlands was increased in line with the Duchy's environmental objectives. As had applied previously, the cost of planting and maintaining the woodlands was met from the Prince's annual net income, and his investment in this growing timber increased substantially. In 1998 the Prince, as a personal investment decision, decided to realise his investment. Separately, the Duchy of Cornwall decided that, using its funds (those in its Capital account), it wished to purchase the timber as an investment.

The Prince no longer owns any growing timber, whereas prior to 1998 he had paid for the planting and maintenance of woodlands on Duchy land. Since then, the Duchy's Capital account has met these costs as part of the process of managing this investment. All income from timber sales is now credited to the Capital account.

The narrative in the 1998 accounts in relation to this transaction was as follows:

"The establishment and maintenance of the timber growing on the Duchy estate has previously been paid from income due to His Royal Highness. Discussions are progressing for the Duchy to acquire His Royal Highness's interest in the timber, thereby bringing the land and the timber under the same ownership in the future".

The narrative in the 1999 accounts was as follows:

"The previously reported discussions for the Duchy to acquire His Royal Highness's interest in the timber growing on the Duchy estate was concluded in July 1998. The Duchy reimbursed His Royal Highness for his previous expenditure on the timber at the open market value of £2,300,000, thereby bringing both the land and the timber under the Duchy's ownership. The timber is now accounted for as an investment of the Duchy and is expected to contribute positively to the future Capital growth of the Duchy".

The land on which the timber was growing was always owned by the Capital account.

6. *Precisely which Timber Rights were purchased, and where were they geographically (please specify if they were related to Highgrove)?*

The Capital account purchased all timber rights across the estate, however the total value of the timber was located in approximately 750 hectares in 45 blocks in Cornwall. There were numerous other small stands of timber across the estate for which it was considered that the realisable value was immaterial and thus no consideration was paid. The Capital account now retains all proceeds from any timber sale.

NON-DISTRIBUTABLE RESERVES—as reported in Duchy of Cornwall accounts 1982–99 (£'000)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1997	1998	1999
Balance b/f	1,277	1,347	1,804	1,843	2,951	3,135	3,298	3,448	3,590	3,837	3,081	3,312	2,572	2,783	2,967	2,354	2,229
Surplus/(Deficit) on revaluation of growing timber	48	11	39	78	184	163	150	142	247	(756)	231	93	211	184	(613)	(125)	
Surplus not available for distribution to HRH arising from a change in the basis of accounting	22			@													
Restatement of debtors and prepayments		446															
Transfer to distributable reserves												(833)					(2,229)
Balance c/f	1,347	1,804	1,843	1,921	3,135	3,298	3,448	3,590	3,837	3,081	3,312	2,572	2,783	2,967	2,354	2,229	0

@ Restated to 218 in 1986 accounts—see D.

Notes: A B C D E F G H I J K

Footnotes:

- A The non-distributable reserves arise from the adoption of the accruals basis of accounting for the first time in 1983. The comparative figures have been restated and the additional net income arising from the application of this basis to the comparative figures has been treated as non-distributable.
- B The non-distributable reserves arise from the adoption of the accruals basis of accounting for the first time in 1983. The restatement of the 1983 non-distributable reserves arises from a change in the basis of disclosure in relation to debtors and prepayments. There is no impact on the amount available for distribution to His Royal Highness.
- C The non-distributable reserves arise from the adoption of the accruals basis of accounting for the first time in 1983.
- D The opening balance for the prior year has been adjusted to reflect the change in accounting policy in relation to the valuation of growing timber which is explained in Note 1c. The surplus arising on the revaluation of the growing timber for the prior year has also been restated to reflect the change in accounting policy. The movement in the opening balance is as follows:

	£'000
As previously reported	1,843
Adjusted	890
	2,733

The valuation of the growing timber was undertaken by Fountain Forestry Limited, a firm of forestry managers and advisers, in accordance with the change in accounting policy.

The non-distributable reserves arise principally from the adoption of the accruals basis of accounting in 1983.

*Note 1c was as follows:*

Growing timber is valued by discounting the expected income from sales of timber over the life of each plantation to current values, after deducting maintenance costs.

The growing timber is valued by independent professional forestry consultants every five years.

The surplus arising on the revaluation of growing timber is unrealised and it is therefore considered inappropriate for the Duchy to include it in income available for distribution. It is therefore taken to non-distributable reserves until realised.

The method of valuation represents a change of accounting policy. Previously, growing timber was valued on the basis of the costs of planting and maintenance for trees up to 15 years old and on estimated yields for trees over 15 years old. The accounts for the prior year have been restated to reflect the change.

- E Subsequent to the year end and as a consequence of the new arrangements (see Note 7), the Duchy formally reviewed the components of the non-distributable Revenue Reserves. As a result of the review, a sum of £833,037, which arose from adoption of accrual accounting in 1983 and which was previously retained by the Duchy for use as working capital, was considered to be distributable and was subsequently paid to His Royal Highness.

The remainder of non-distributable Revenue Reserves at 31 December 1992 represents the unrealised Revenue surplus on the revaluation of growing timber which is retained until such time as the timber is sold.

- F As a consequence of the new arrangements, the Duchy formally reviewed the components of the non-distributable Revenue Reserves. As a result of the review a sum of £833,037, which arose from the adoption of accrual accounting in 1983 and which was previously retained by the Duchy for use as working capital, was considered to be distributable and was subsequently paid to His Royal Highness.

The non-distributable Revenue Reserves at 31 December 1993 represent the unrealised Revenue surplus on the revaluation of growing timber which is retained until such time as the timber is sold.

- G The non-distributable Revenue Reserves at 31 December 1994 represent the unrealised Revenue surplus on the revaluation of growing timber which is retained until such time as the timber is sold.

- H The non-distributable Revenue Reserves at 31 December 1995 represent the unrealised Revenue surplus on the revaluation of growing timber which is retained until such time as the timber is sold.

- I The non-distributable Revenue Reserves at 31 March 1997 represent the unrealised Revenue surplus on the revaluation of growing timber which is retained until such time as the timber is sold.

- J The non-distributable Revenue Reserves at 31 March 1998 represent the unrealised Revenue surplus on the revaluation of growing timber which is retained until such time as the timber is sold.

- K The non-distributable Revenue Reserves at 31 March 1998 represent the unrealised Revenue surplus on the revaluation of growing timber. Growing timber has been transferred to the Capital account during the year as set out in Note 5.

*For info Note 5 was as follows:*

#### TRANSFER OF WOODLANDS BUSINESS

In the year ended 31 March 1998 and in prior years, income from and expenditure on growing timber was accounted for within the Revenue account and the open market value of the growing timber was included on the Revenue account balance sheet as an asset of His Royal Highness. In order to bring the land on which the timber is growing and the timber itself into the sole ownership of the Duchy, on 1 July 1998, the growing timber was transferred from the Revenue account to the Capital account for a total cash sum of £2,300,000, its open market value at that date. This sum was subsequently paid to His Royal Highness.

All income and expenditure associated with growing timber has been accounted for as Capital account activity with effect from 1 July 1998.