

Treasury Sub-Committee

Oral evidence: The Work of the Crown Estate, HC 615

Monday 18 December 2017

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Members present: John Mann (Chair); Stewart Hosie; Kit Malthouse; Nicky Morgan.

Questions 1-71

Witnesses

I: Alison Nimmo, CBE, Chief Executive, The Crown Estate, and Paul Clark, Chief Investment Officer, The Crown Estate.

Examination of witnesses

Witnesses: Alison Nimmo and Paul Clark.

Q1 Chair: You have come on one of those parliamentary days when no one has a clue what is happening. Well, we know now what is happening, but until a few hours ago we had no idea. The Prime Minister is making a statement now, and there will be more statements. It is a little chaotic in terms of where people are, so we may have a bit of juggling of people as we go through, but welcome. Would you introduce yourselves for the record, please?

Alison Nimmo: Good afternoon. I am Alison Nimmo. I am Chief Executive of the Crown Estate. It is great to be back to update you on progress.

Paul Clark: I am Paul Clark. I am the Chief Investment Officer at the Crown Estate.

Q2 Chair: Alison, perhaps I can start by asking about the new executive structure that has been brought in. Is it working as you envisaged? Is it doing better than you envisaged? What key successes over the last year or two would you like to highlight?

Alison Nimmo: It is working really well. We did a big restructure back in 2015. There were three key elements of that. One was creating a C-suite, putting all the portfolios under a single report, with Paul as chief investment officer, for example, and a new CFO, and basically trying to create a tighter leadership team. The second element of it was restructuring our energy, minerals and infrastructure team given where we were in the offshore wind business. The third element was preparing the business for the devolution of our Scotland portfolio to Scottish Ministers. There was quite a lot all happening at once, and it has really unlocked a lot of potential in the business. We have a much clearer structure and much clearer accountability, and it has allowed us, as a much tighter management team, to really drive the business forward.

Q3 Chair: We will come to Scotland in a minute. Perhaps you could say a word about whether offshore wind is, in your judgment and in terms of your objectives, successful, and about how successful it is.

Alison Nimmo: It is one of our great successes. From a standing start in 2000, we have built a world-class renewable energy business for UK plc. We now have 30 operational wind farms. We have something like a third of all offshore wind anywhere in the world, and we have brought very significant international investment—inward investment—into the UK. As of the end of the last financial year, our partners' wind farms were generating 5% of the UK's electricity. That is enough to power homes in Greater London, Liverpool, Manchester and Birmingham. Paul might want to talk about the numbers—the value that it has driven for us as a business—but it has been a real commercial success for us as well.



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Paul Clark: It was around 7% of the total value of the Crown Estate at the end of the last financial year—£850 million, or thereabouts—and contributed around £28 million to our gross revenue, which was a little over £400 million last year.

Q4 **Stewart Hosie:** Alison, you talked about the changes the Crown Estate has made. Last time you were here, in 2015, we took evidence on the devolution of the management of the Scotland portfolio. Will you briefly talk us through the key aspects of the change you made in that regard and what impact devolution has had on the operation of the Crown Estate overall?

Alison Nimmo: The Scotland Act 2016 created the legal framework for the devolution of our Scotland portfolio, which is worth about £275 million and has some fantastic assets, including aquaculture, assets like Glenlivet, and the foreshore and seabed around the coast of Scotland. It is quite a significant portfolio of assets and has a great team of about 32 people, mainly based in Edinburgh.

It was a complex thing to do to take a bit of an organisation that had been run as a UK-wide organisation and set it up to stand alone as a going concern. A year before devolution, we set it up in shadow form and put in Ronnie Quinn as the general manager/interim chief executive officer. We supported the team and worked through what has ended up being a seamless transfer. We worked very closely with Holyrood and with our colleagues in the Treasury, because it was quite complex from a legislative point of view, and obviously looked after the team and made sure that the team could go with the assets in a way that did not disrupt day-to-day business. It all got done on time at the end of the last financial year. The team, all to their credit, delivered a record performance.

Q5 **Stewart Hosie:** That's good. You mentioned the seabed. When the Crown Estate was here in 2015, you argued to this Committee that the single management of the UK seabed "created a lot of value for UK plc"—the UK, I presume. How has the management of the UK seabed changed as a result of being devolved? You said that the transition has been "seamless", so I am guessing that the man or woman in the street will not have seen any change. Would you say that it has delivered value for the organisation?

Alison Nimmo: Crown Estate and Crown Estate Scotland are now two completely separate legal entities. Crown Estate, the organisation Paul and I work for, is responsible for managing the seabed around England, Wales and Northern Ireland. Crown Estate Scotland is responsible for the management of the seabed around Scotland.

Q6 **Stewart Hosie:** So I presume that since those changes, which you describe as "seamless", there has been no impact on the way the seabed around the entire coastline has been managed or co-ordinated. I presume that the management has been integrated where it needs to be.

Alison Nimmo: It is very early days; we are six months post-devolution. The Scottish Government, as you know, is consulting on what the future



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shape of Crown Estate Scotland will be. In the interim, we have agreed an MOU with Crown Estate Scotland, which makes sure that we co-operate in an appropriate way. We have worked together on the recent launch of the next round of leasing, for example; we co-ordinated very carefully with them on it.

Q7 Stewart Hosie: I just want to make sure that there is nothing in that MOU that has jarred, clashed or given you cause for concern so far.

Alison Nimmo: No, we sat down and did it together. It is on our website. It was a very sensible discussion between Treasury and Holyrood, with Ronnie and the team and our energy and minerals team. It was just a statement of how we best co-ordinate, work together where appropriate, and make sure that UK plc still provides a very open and clear proposition to the major international investors we want to attract for offshore renewables.

Q8 Stewart Hosie: That is helpful. I am sorry if this is a little samey, but I am just trying to understand exactly what the impact of all this has been. In the evidence you gave in 2015, you noted that Crown Estate Scotland generated a "nice surplus", but you raised concerns about capital for reinvestment in certain areas, such as aquaculture, in which significant investment was needed. You said that "that would...have to be self-generated from the portfolio or from the Scottish Government." How has the relationship been between Crown Estate, Crown Estate Scotland and the Scottish Government? How have you ensured that Crown Estate Scotland is able to secure the investment needed to progress in those areas?

Alison Nimmo: I think that is really an issue for the Scottish Government and Crown Estate Scotland. Previously, we invested in MeyGen. That was an investment from the broader Crown Estate pot into the largest tidal array in the world, so it is one example of how we invested in renewables in Scotland. It was generated from a UK-wide pot, whereas if Crown Estate now wanted to make another investment similar to that in MeyGen, it would have to generate it by selling something. Like Crown Estate, it cannot borrow, so it has to fund its own arrangements, but it is a smaller organisation.

Q9 Stewart Hosie: You are not aware of any particular issues arising from their inability to raise capital?

Alison Nimmo: To be honest, I don't know; I have not seen their investment plans or business plans for the future. That is very much an issue for Ronnie and the team in Scotland.

Q10 Stewart Hosie: I am sure the Chair of the Sub-Committee may wish to have them in as well at some point. At the time of the transition to the devolved management, there was concern that the uncertainty over that period would deter Crown Estate's ability to secure private investment in the Scottish portfolio. Did you find that the uncertainty over that period—the handover period—affected the performance of either Crown Estate or Crown Estate Scotland, in terms of attracting investment?

Alison Nimmo: All parties worked very well together and we managed a seamless transfer. As I say, the numbers speak for themselves in terms of the performance. All credit to the team in Crown Estate Scotland, who delivered a record performance. I think our tenants and our customers are very supportive of the new arrangements. Colleagues in the Scottish Government worked very closely with us and with Treasury to make sure that it all happened, critically, to that deadline, so that everybody had a level of certainty about what was going to happen and how and when.

The real trick in making it a success was setting it up in a shadow form and then transferring it as a going concern. That meant that for the year before it actually transferred we were able to sort out all the systems and the transfer of data, and make sure that all our customers and stakeholders were really well briefed. It was a really good example of how you can make devolution work.

Stewart Hosie: That might be an interesting lesson for other bits of Government.

Q11 **Kit Malthouse:** Hello. We have met before. I used to be the London Assembly member for large parts of the Crown Estate portfolio, so we have talked in the past about these issues. I wanted to ask you about ongoing risks. Obviously, like a lot of historical aristocratic property portfolios, you are heavily London-concentrated. Does that present a particular risk to the portfolio, and if so what are you doing about it?

Paul Clark: Yes, you are right. About 60% of the Crown Estate by value is exposed to central London, and it is not just about an inheritance; it is a conscious decision on the part of the business to concentrate on what we regard as core strategic sectors for us, where we have critical mass and a high level of expertise and where we like the medium to long-term market supply and demand dynamic. We would argue that part of de-risking the business, given that real estate is an imperfect market, is concentrating on sectors that we know really well and where we have a depth of knowledge. In doing that, we obviously concentrate the business on a narrower focus. For central London, for example, we have exposure to a range of different sub-sectors. Some 40% of it is offices and a similar amount, by value, is retail, and then we have some leisure and residential elements. Within that, we have getting on for a couple of thousand customer relationships. We are exposed to a lot of different tenant risk. We are not long on one particular sub-sector.

What we also do is manage our development exposure carefully. We have been through the largest development pipeline that the business has had in the west end, between 2013 and 2016, but we have been working for a couple of years now on the basis that we expect a slowdown in our markets. We have been de-risking the business, both through lightening the load on redevelopment and through working hard on our asset management, so our vacancy rates in central London are down—about 3%. What you can't get away from is the geographic-specific risk, although we have tried to mitigate it in terms of the range of sub-sectors we are involved in, and the behaviours we undertake at any given time.

We have to accept that there will be periods when London underperforms, as it did around 2008-2009, but our view would be that over the medium to long term, London, and particularly the west end of London, is more likely to be an outperformer, and that is in part a consequence of the strength of a small number of global hubs over the last 30 years.

- Q12 **Kit Malthouse:** I understand, but if you look at the other west end estate—Grosvenor—they have made some fairly big regional plays, not least in Liverpool, where they have pumped quite a lot of money into redeveloping pretty much the whole city centre. Certainly some of the commercial portfolio-holders, such as Land Securities and all the rest of it, have made big investments elsewhere in the country—Leeds comes to mind. Yet you don't appear to have done that in the same area—you might have done it with offshore wind or whatever—to any great degree. Does that put you out of kilter with them? I mean, their perception of risk is perhaps different from yours, and I am wondering why.

Paul Clark: Well, a good 40% of the business is located outside central London and the biggest single part of that is around 20%, which is focused on large regional retail schemes around the UK. In partnership with Land Securities, we have just delivered around a million square feet of retail space, principally in Oxford—Westgate, which is a joint venture with Land Securities—and also in Rushden, in the east midlands, and also just outside Newcastle, in a park called Silverlink. Part of our strategy is therefore to focus on that small number of core sectors that are quite diversified in terms of running two different economic drivers. I accept that we have got a significant exposure to central London, which is a conscious position we have taken—

- Q13 **Kit Malthouse:** So you are effectively doubling down on central London, and then there is a bit of extra elsewhere.

Paul Clark: Well, 40%, and we have been pretty active in that regional portfolio.

- Q14 **Kit Malthouse:** Is that 40% by current investment, or by historical capital?

Paul Clark: By capital value today. The historical investment in the portfolio ebbs and flows. For example, we talked a little bit in the earlier Q and As about—

- Q15 **Kit Malthouse:** Has that proportion—60:40—changed over the years?

Paul Clark: Not materially in my 10 years.

- Q16 **Kit Malthouse:** So it has always been 60:40?

Paul Clark: It has moved around the 60% exposure to central London by a few basis points—

- Q17 **Kit Malthouse:** Given your big investment plans or plan coming through, is that likely to become more like 70:30?



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Paul Clark: No. The reason is that we were speaking earlier about the need to find capital for reinvestment and what we have to do at the Crown Estate is to find our own internally generated capital to move around the business. On average, over the last seven or eight years we have traded in and out of the business—buying, selling and developing—around £1 billion a year; broadly, £500 million in and £500 million out. Of the £500 million out, about 65% has come from central London, and that has been selling in non-core areas or setting up partnerships, for example. To a large extent, the business has fed itself that way, and that has also moderated our exposure to central London, so it has stayed, pretty closely, just a couple of basis points either side of 60% over my time, which is 10 years.

- Q18 **Kit Malthouse:** But historically, London has done the Grosvenor family very well over the last 300 years or so; historically, London is essentially a one-way bet.

Paul Clark: The real estate market is cyclical and we should never underestimate that—

Kit Malthouse: But over time?

Paul Clark: But we think that, over time, all three of those key strategic areas will play out well for us.

- Q19 **Kit Malthouse:** Okay. And then about a third of your overall holding is a kind of retail—central London retail. Is that about right—33%?

Paul Clark: Well, of the 60%, just under half, yes.

- Q20 **Kit Malthouse:** Right—so, 20-odd per cent. or 30-odd per cent. Are you at all concerned from a risk point of view about your exposure to retail in what is a rapidly changing industry?

Paul Clark: The total exposure of the business to retail is around 40%, and it is right to point out that it faces some material, demographic, social and technological changes, which we are very alive to. However, if you look at the portfolio we have, our vacancy rates outside London are sub-2% in England and they are lower than that on Regent Street. There are two things that you must have when it comes to physical retailing: you have got to offer experience and/or convenience to shoppers, because the way we expect this to play out is that it is going to be the retailers who have got the broadest bandwidth, and who can operate both physical and non-physical retailing effectively, who are going to do best.

Just to give you an idea of the strength of the right sort of retail outside of London, of the million square feet that we have completed this year in our regional retail portfolio, Rushden, which is 200,000 or so square feet, opened with 99% let, and Westgate is around 90% let and had 1.6 million visitors in its first month. While there are well documented issues with retailing in the broader sense across the UK, as a sector we have not overdeveloped for the last decade. In fact, we have been running at development levels that were probably half of what they were before 2008.



- Q21 Kit Malthouse:** When you say retailers with a bandwidth, I guess you are effectively talking about companies that have scale and a consistency of offering. One of the constant worries about the west end—Alison, you and I have talked about this in the past—is that it just becomes Westfield without the parking. It is a sort of open-air Westfield: all the same chains, all the same shops. It can be quite hard in parts of the west end to find an independent shop these days.

In my old life I used to have lots of arguments with the Crown Estate about their development plans. They were building floor plates basically designed for chains to operate in, rather than smaller affordable units for a variety of independent stores that make the most exciting parts of London exciting. If you are effectively trading off the covenants of these large multinational corporations, it all becomes about the maths rather than the experience, doesn't it?

Alison Nimmo: My first job was at Westminster City Council and I remember Regent Street when it was a bit shabby and down at heel, with airline shops and tartan tourist shops; the beautiful listed buildings were really not in good shape at all. Fast forward 25 years and Regent Street is a fantastic success story for London: one of the best global shopping streets anywhere. We have got brands that nobody else has got. Some of our brands have been there for 100 years—the Burberrys and the Libertys of this world.

The transformation of Regent Street over the last 15 to 20 years is a textbook case—before I joined the Crown Estate—of how you create a really strong vision for somewhere. You try and create a brilliant place, not a covered shopping centre, and you get the best brands and appeal to retailers right around the world to come and set up their first store, like the Apple store in 2004 on Regent Street. It has been an extraordinary success. A lot of the shops are large flagship stores. That is specifically what we were trying to create. But we have also got offices and a great food offer around the core shops.

- Q22 Kit Malthouse:** Yes, but would Regent Street be the same success if it was not surrounded by Soho, where some independent, interesting stores that are not selling the same stuff as Westfield still cling to life?

Alison Nimmo: We also have St James's. Walk down Jermyn Street and it is the complete opposite of Regent Street, but very special in its own right, with different scale shops. As you say, Carnaby Street is different. I am clearly not convincing him, Paul. You have a go.

Paul Clark: To some extent, you have to play to your strengths, and Regent Street is a mass market street. It is high end, but none the less a mass market street. You are right that central London's strength is the breadth of the experience. We try to bring to it what we can. As Alison says, St James's and Jermyn Street have a different feel in terms of the retailers there, where we try to make sure that they are distinctive.



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Kit Malthouse: But in your new development programme, would you build, for instance, a latter-day St Christopher's Place with small units designed for owner-operators to do interesting things in?

Paul Clark: On Regent Street I think that is unlikely because of the nature of the shopping. However, if you remember the Quadrant 3 development that we undertook and finished in late 2011 just round the back of the Café Royal, the run of shops along there on Brewer Street were very much in that vein. We went for a more eclectic and original mix because it was in Soho and it suited that type of approach. It is horses for courses. Where it is right and where we think it will be a durable, sustainable approach, we will do it, but we have to play to the strengths of what we have got.

Alison Nimmo: Some of the arcades, like the Opera Arcade and Princes Arcade, have some opportunities for smaller shops in there. It is about a mix.

Q23 **Kit Malthouse:** Earlier this year, just after the Brexit vote, you suspended a development in St James's. I think you had £100 million. Then in December 2016, you gave it the green light. What was the decision-making process? What were you worried about and then not worried about?

Paul Clark: That was slightly over-enthusiastic reporting, I think. My recollection is that our results were released on the Monday morning after the vote. At the time, we quite rightly wanted to assess where we were with those developments. They were never suspended. They were still in the process of being validated. There were two of them, both of which we have now approved and started—one north of Oxford Street and another one on Jermyn Street. It was really just a question of the usual inputs you would expect into a development proposal—how much was it going to cost us to build, how much could we lease it for and what we thought of the market.

Q24 **Kit Malthouse:** So there was no hesitation there?

Paul Clark: There was the proper due diligence you would expect, which took about the amount of time you would expect us to undertake it in.

Q25 **Kit Malthouse:** I guess the suggestion from the reporting was that—let's put this charitably—you took the opportunity of the Brexit vote to pause your consideration or to take a bit longer over these developments, and then decided to go ahead anyway.

Paul Clark: I recall the reports. Because of when we announced our results, which was the Monday morning after the vote, I think the only thing we could say at that point was that we were going to take a step back for a second and make sure we were content to carry on. You know better than I do how journalists can sometimes seize on a nugget like that. I don't think the vote had any material impact on the length of time it took us to get to approving those schemes.

Q26 **Kit Malthouse:** Lastly from me, I just want to ask you about the



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proposed pedestrianisation of parts of Oxford Street. Do you see that as a risk?

Alison Nimmo: It is fair to say that, in overall terms, we are very supportive of it, but we want to make sure it is part of a holistic approach in the west end—particularly around Oxford Circus and what happens with traffic on Regent Street and Oxford Circus. It is a fantastic opportunity, with Crossrail coming in, to really rethink that whole bit of the west end and make it much more pedestrian-friendly. We have been working really closely with the Mayor and Westminster City Council, and we have put forward broader plans that we would like to see for increasing pedestrianisation and for fatter pavements along Regent Street. We have come up with some proposals for Oxford Circus, which are getting some good traction in Westminster and the Mayor's office.

Q27 **Kit Malthouse:** I'm surprised. I personally think it will be a disaster, but there you are. I bear the scars of when the industry asked Westminster Council to pedestrianise Soho and limit traffic. Within six weeks of doing it, they were screaming to have it taken out because it became a huge issue from a public order and a general behaviour point of view. But there you are.

Alison Nimmo: Our major concern is Regent Street and creating a world-class environment for people to come and work and shop. Air pollution and the whole quality of the public realm is something we are very interested in. We have invested really heavily in it, so anything that helps.

Q28 **Chair:** You are very proud of your achievements on wind energy and renewables. I think the Committee would find it useful to get a note on what you are doing and on whether there is further expansion capacity in your view. Some might say that you are so discreet that you undersell yourself in that area. The Committee would be very keen to learn more about that. I think people would be surprised at the speed of growth and the percentage of the market you have. It would be very interesting to have something on that and to know whether you think it is possible to expand it further.

Alison Nimmo: We do. The trick has been with the costs coming down. As with any energy source, if you can get the cost per megawatt-hour down, that helps unlock a lot more potential. We would be happy to do a note. We have not really talked about the supply chain and things like onshore support for offshore wind and some of the life it has been bringing back into harbours, like Mostyn Docks, the Humber estuary and also things like Siemens's investment in Green Port Hull. In terms of a key part of the industrial strategy for the UK, it is, again, a broader success story than just energy.

Q29 **Chair:** A note on that would be of great interest. Thank you. I want to dip around a little on some of the issues raised by the Committee in the past. One of the issues raised in 2010 was the hereditary properties of the monarch and whether they are best vested with you. You are portraying yourselves as a very successful commercial enterprise, so what value do these historic properties add to your portfolio?



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Alison Nimmo: They are important for the nation.

Q30 **Chair:** But is it important that they are with you, was the question raised in 2010, as opposed to someone else managing them.

Alison Nimmo: They are important for the overall nation, so it is important that if we are not managing them they are managed by an organisation that has the skills and capability. In Scotland, heritage properties were devolved. There was a first series of devolution and then a series of other things that went across to Historic Scotland, which preceded the overall devolution. In England, we have been working with English Heritage since the report from the Committee and there are 32 properties on a list that we are working through. English Heritage—I think they are called something else now—

Kit Malthouse: Historic England.

Alison Nimmo: Historic England are obviously the best people to run them and they effectively run and manage them at the moment. In terms of transferring the ownership, we are working through a list of 32. About eight, as I recall, have already been transferred, including Carisbrooke castle, Chester castle and Carlisle castle—so some pretty substantive assets—and we are working through the rest of the list. It is very much a work in progress. We agreed with the Committee that there are certain things that we have done historically that, actually, other bits of Government have the skills and expertise to do, so we are working our way through that.

Q31 **Chair:** That is 32 you intend to transfer?

Alison Nimmo: Yes.

Chair: Over what timescale?

Alison Nimmo: Getting to the bottom of some of these assets and getting the legal transfer of the ownerships is quite a tricky process, because they go back centuries. There is also a slight difficulty with some of the assets in that they have a commercial value and clearly, under the Act, we have to sell the assets—we can't just give them away. We have to sell them for the best consideration. There are some assets where English Heritage do not agree with the same value that we do, but to a large extent it is just both organisations being very busy doing other things. We have this on the back burner and are working our way through them. We have to go through due process with our board and also with the royal household.

Q32 **Chair:** That might suggest that legislators have tied your hands a bit too much. Is there a change that could be contemplated in legislation that would make your life easier in terms of these disposals?

Alison Nimmo: I am confident that before we come in front of you next time, we will have got a long way through the list of 32.

Q33 **Chair:** Obviously if there is, we would be keen to know. If it is the view held internally that you are being hidebound by legislation, it would be



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very important that, through us, Parliament was informed, albeit regarding small amendments to legislation.

Alison Nimmo: I think it is more the practicalities and the legal position of working our way through what are some complex old title deeds, to make sure that the ownership is transferred properly at a time when English Heritage, as was, have been going through a lot of changes. We have been very busy as well, so it has not been top of the priority list.

Q34 **Chair:** But that would still leave some significant hereditary properties under your remit.

Alison Nimmo: We have a series that are called old land revenue properties, which might come to us at some stage in the future when they become non-operational, but we don't own them in any conventional sense of the word.

Q35 **Chair:** The Committee also raised independent benchmarking with you. How are you doing with that? Do you routinely get your bespoke benchmark independently verified, for example?

Alison Nimmo: We wrote to the Committee after our last session, and we thought it was a good idea. There was a challenge around whether the benchmark was the right benchmark and whether we had it independently verified, and there was also an element of whether it was properly up to date. We did a piece of work, and the outcome of that was that it was a good benchmark, that it was challenging and that it was appropriate. Subsequent to that, we wrote back to the Committee, and we did an exercise to update it, particularly given the changes in the portfolio. We hadn't updated the benchmark for eight years, and particularly given the devolution of our portfolio in Scotland we felt it was a good opportunity to update it. Do you want to explain what that meant, in terms of the calibration?

Paul Clark: Yes. It is probably worthwhile mentioning that our benchmark is calculated for us by the industry's leading benchmarking organisation. All the numbers to do with determining where our benchmark has come out against our performance is done by a firm called MSCI, which provides the benchmarking for the industry generally. Since eight or nine years ago, we have tried to make sure we have a benchmark that is relevant to the sort of portfolio we have got. Real estate is such a broad and varied sector, so if we were to measure ourselves against one of the standard industry benchmarks, it would mainly tell us the random nature of the relationship of our returns to the way the industry is behaving. Consequently, we have a benchmark where the weightings look rather like the weightings in our portfolio. We are therefore judged principally on two things: first, the extent to which we move away from those weightings; and, secondly, the performance of the individual assets we own against the assets within the benchmark sector portfolio.

Q36 **Kit Malthouse:** It must be quite hard to benchmark, though. There is no one who has quite that concentration in central London of a particular kind of property, so you are having to construct a mock portfolio from

other people's bits and pieces to recreate a benchmark.

Paul Clark: It is quite common.

Kit Malthouse: Nobody else owns Regent Street.

Paul Clark: No, that is right.

Kit Malthouse: Or an equivalent, so it is very hard to benchmark it.

Paul Clark: A lot of organisations have portfolios that are specialised, and that is particularly true of property companies. As we were saying, we have 60% exposed to central London, and the way our benchmark works is that the performance of our assets is measured against what the industry's assets have done in central London. It is just that our benchmark has a much higher weighting than a standard industry benchmark would have. That takes away, for good or bad, the fact that we have chosen to be over weight in those areas, because we have got a benchmark that looks much more like our portfolio.

Q37 **Stewart Hosie:** You have said a few times that the overweighting in London was a deliberate policy for lots of sensible commercial reasons, but you said last year—November 2016—that the UK commercial property market is undergoing a “mid-cycle adjustment”, rather than a downturn, and that there were not enough elements in place for a downturn. That may well have been an accurate assessment of what took place across the whole of the UK. I just wonder whether your thinking isn't skewed by some rather shiny expensive central London assets compared with what some of us might say is happening in the real world. Those two quotes jumped out when you were speaking about the nature of the asset base. It is not your average portfolio.

Paul Clark: No, that is quite correct. Those are remarkably accurate quotes.

Stewart Hosie: That is because I am quoting.

Paul Clark: We have to acknowledge that we live in a fairly rarefied atmosphere. We are investors in prime real estate but those comments were in the context of some broader observations we made about the real estate market. They are also a few months old now. We positioned the business in 2015-2016 for what we thought would be a slowdown in our markets, regardless of anything else that was going on, and if you look at returns from UK real estate over the last couple of years, they have stayed quite positive and the best performing sector over the last year or so has been industrial real estate across the country, particularly, to be honest, in southern England. That has been the best performing sector for reasons around scarcity and distribution for retail and—

Q38 **Kit Malthouse:** Everything else is jamming up. I am sorry to interrupt but this is why I am slightly nervous about the benchmark. We have seen a general inflation in asset prices caused, some people might say, by QE, or by various other demand and supply issues, particularly in residential,



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so I am not sure that there will be that many central London property owners who have not performed well over the last two or three years. A rising tide lifts all boats. If, in among that, you own, effectively, the Crown jewel and are monopoly owners of the Crown jewel, I would have expected you to outperform too. For instance, if you look at the art market, there has been a general inflation in old master art prices. Then the guy, whoever he is, shows up with the last da Vinci in private hands and shoots the lights out, selling it for whatever it was—a ridiculous hundreds of millions. You would have expected that, because it was the last one in what is a generally rising market. He could say, “Look. I outperformed the benchmark”. “Well, hold on. You didn’t have to try have very hard to outperform the benchmark because you owned the last da Vinci”.

Paul Clark: I will say two things in response to that. First, our benchmark has already got an increased weighting to central London, so we are not getting the benefit of that because of the way in which the benchmark has been skewed to allow for the fact that we have that heavy weighting. The second thing is that regarding just about 100% of our total return outperformance, which is the sum total of all the returns we get from real estate, whether rent, valuation uplift or profits from sales, over the last three and five years, we have produced a little over 15% per annum against a benchmark that has been in the 12s, and a market that has been around about 11%, if you take a standard benchmark. That has come from basically three things: our commercial development pipeline and the associated leasing thereof; our commitment in the work we have done in offshore wind; and our trading in the real estate investment markets. All those are active positions we have taken. By and large, if you just rely on valuation uplifts and you have a decent benchmark, you will more or less get the market. If you want to outperform, you have to do something.

- Q39 **Kit Malthouse:** Okay, but I guess you would say that, on your development pipeline, some of the outperformance, or the uplift of valuation, must be because you are redeveloping existing assets and making them more dense and efficient and are able to get more in there for effectively the same footprint. Nevertheless, the asset is the footprint, on Lower Regent Street, or wherever that block was that you redeveloped between Haymarket and Lower Regent Street. So you are getting x% more bang for your buck out of that acre and a half of land, because you are putting more capital in. We get the total return and the bespoke benchmark, but does that take into account the capital input?

Paul Clark: Yes, it does. That comes off. Every penny we spend on the portfolio is a penny off our return, so we had better make sure that, in the round, it is accretive.

- Q40 **Kit Malthouse:** Right, but the risk-weighted return on sticking £100 million into Lower Regent Street is probably significantly better than sticking £100 million into somewhere else, if you are the poor sap that happens to own some land elsewhere and you want to develop it for retail. Frankly, it is much more risky to sink that money into, say, Victoria



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Street, than it is into Lower Regent Street.

Paul Clark: Only if you get your timing right and you have got a high degree of expertise. You will know that, going through the planning process and then construction and leasing, the biggest risk we take at the Crown Estate is in development. We try to manage that by making sure that it is generally less than 10% of the value of the whole portfolio, but that is where we get a material amount of our outperformance. The reason we do is because we take more elevated levels of risk in order to get there.

- Q41 **Chair:** What about public interest responsibility and duty? Two questions on housing. What protocols do you have in place to manage tenants during the disposals of residential properties?

Paul Clark: It has happened in two parts of our portfolio principally in recent years in London—a large part of the 2010 hearing was devoted to the process we were going through to sell some housing estates in London—and more recently over the last three or four years, on our rural portfolio where we have sold three portfolios of about 500 residential properties. Our approach to that is always to be transparent and open, to consult where we can, and to make sure that we are very aware that we are dealing with people's homes when we are doing this. Consequently, we try to make sure that we come out of this with outcomes that work for all concerned.

- Q42 **Chair:** In 2015, *The Independent* was highly critical of your disposals and suggested that tenants had been forced out of their properties due to inflated rental prices.

Paul Clark: That was a disposal of some homes on our rural portfolio. As part of that process, we talked to our residents early and we made sure that we gave them the opportunity to purchase where they could, and an extended notice period so that they had the opportunity to find themselves another home if that was necessary. We also made sure we compensated them for any improvements they had made to those properties during the time that they were living in them.

- Q43 **Chair:** Do you have written protocols for how you deal with tenants in that situation?

Paul Clark: We have a bespoke approach for each occasion.

- Q44 **Chair:** That suggests that you do not have any written protocols.

Paul Clark: We have a bespoke approach for each occasion, because we do not have a lot of residential property, to be honest. It is about 7% or thereabouts of the business as a whole and we do not often transact in residential property. Consequently, we find it best, particularly given that there is quite a wide diversity of residential property in the portfolio that runs from long leases around Regent's Park to individual cottages on our rural portfolio. A tailored approach for the circumstances is the best thing to do.



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Q45 Chair: But a tailored approach means there are no protocols in place that would look at the public interest duty in terms of the rights of those tenants. Should you not consider that there should be some transparent protocols in place for how you are going to consult, how you are going to change, and what the landlord role and remit is going to be in these situations? That is what one might expect of a public sector landlord.

Alison Nimmo: In the last portfolio sale we did we protected the rights of tenants. Although Paul is right in that there is a bespoke approach, we have a set of principles that are constant.

Q46 Chair: Is it possible we could have a copy? That would be most helpful.

Alison Nimmo: Yes.

Chair: Thank you.

Q47 Stewart Hosie: Could I just ask, on the set of principles—I think John is right; I would like to see them—would it not be helpful if you had the same statutory housing obligations that local authorities or housing associations have, in relation to your residential portfolio?

Alison Nimmo: As Paul said, it is a very small bit of our business.

Q48 Stewart Hosie: Seven per cent is a big number.

Alison Nimmo: In the rural portfolio, it is, what, 150?

Paul Clark: Yes. We have somewhere between 120 and 150 individual residential properties.

Alison Nimmo: So in the broader sense of public housing policy, it is an absolutely tiny number. The stuff in central London is in the middle of Regent Street or Regent's Park, so it is very international, I suppose, in that respect.

Q49 Chair: My second question is, when you have gone forward with housing developments in recent years, have you met the local affordable housing targets?

Alison Nimmo: We always go with the grain of local policy. In terms of the housing that we do outside London, it is really out of our strategic land portfolio. We work very closely with local authorities to get planning permissions and we reflect what they want from their local plans or specific circumstances. They often partly ask for affordable housing, but they also normally want an overall package, depending on the specifics of individual sites. That might include investment in infrastructure or social infrastructure. Each case is put forward by the team on its merits, but we work within that local democratic process.

Q50 Chair: You work within it, but going with the grain again sounds rather tailored and bespoke. Is it your grain you are going with, or is it their local affordable housing targets?

Paul Clark: When it comes to our strategic land portfolio, we have a pipeline of 700 to 900 homes a year that we get planning consents for; we



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don't build any, but we get planning consents. Local authorities vary considerably around the country, in terms of what their priorities are. We are in the business of getting planning consents, so we want to work closely and productively with all the local authorities that we are involved with, to make sure that we produce the type of housing development that they think best suits their local area.

There is very seldom a binary relationship between affordable and market prices; there are also a lot of other issues swirling around in there. For example, the bigger the development, the much more likely it is that a local authority will want significant amounts of money spent on highway infrastructure and upgrades. As Alison says, we have produced not only that, but educational, health, recreational and sporting facilities. There is a large site in Northamptonshire, which we were 37% of and which produced something like 1,400 homes. The planning gain—the section 106 position on that—was something like £38 million, from a mixture of transport infrastructure spending and other improvements to local community facilities.

- Q51 Chair:** You appear to be answering that like any other developer would answer it; that is exactly what any housing developer would come back with. My question is really that, as a public body, and as the Government want to see more affordable housing—they were quite explicit on that—are you doing your bit or, indeed, more than your bit on that, and do you plan to in the future?

Paul Clark: If you look at our portfolio, which is skewed towards central London in the way we discussed, we don't really have the portfolio or, to be honest with you, the expertise in the business for this to be a large part of what we do. We have been given a clear, commercially-based mandate under the Crown Estate Act.

The difference about us is quite often the longevity of our approach. We want to be around for a long time doing business, and we want to make sure we do it in the right way so that we can do repeat business. Consequently, although it may have sounded similar on the face of it, what we do under the surface is quite a bit more considered. We are very much focused on making sure that we produce the type of housing developments that local authorities want in their areas, and each area will be different.

- Q52 Chair:** The Treasury meets you regularly, and you report to the Treasury regularly. Do they give you a clear, unequivocal steer about how the Treasury sees the world and what they would hope to see from you as part of the public sector?

Alison Nimmo: We meet our sponsor Department regularly. We share our plans and forward projections with them and we update them regularly on the business. Housing and the specifics are not part of the agenda. They very much respect the fact that we are run as an independent business with a clear legal constitution under the Act and a financial framework that is agreed with the Treasury. They would see

some of these issues very much as detailed operational issues. Our conversations tend to focus instead on the overall direction of travel and the core strategy of the business.

- Q53 **Chair:** I will just jump to one other issue before I bring in Nicky. It is about the Treasury's Women in Finance Charter. You are linked directly with the Treasury. Do you support the charter? You are not a financial services firm, but in principle do you support it? Would you sign up to it if you could?

Alison Nimmo: I am sorry; I do not know what it is.

- Q54 **Chair:** The Treasury's Women in Finance Charter.

Alison Nimmo: I do not know the detail of it. I do not know what it is.

Chair: We will communicate in writing on that.

Kit Malthouse: You are the embodiment of it.

- Q55 **Nicky Morgan:** It is a flattering thing; Ms Nimmo, you are obviously one of the few female chief executives. You are not the only one, but there are not that many of you. The Women in Finance Charter is about boosting diversity. As the Chair says, the Crown Estate is not a financial services company, so the charter is not directly relevant, but diversity more broadly is.

I have a couple of questions. The first is on the gender pay gap. Your gender pay gap looks very positive compared with many other organisations. I wondered whether producing the information about the proportion of men and women in the organisation by pay quartile had prompted any interesting reflections or discussions in your executive board.

Alison Nimmo: The whole diversity of the business is something we take very seriously, and I think we have made great strides on it in recent years. Gender is one aspect of that. As you can imagine, it is very close to my heart as one of the few property chief execs in the business who is a woman. We were very keen that we responded to the Government's gender pay work, and we got on and put our stats out last month. In overall terms, those stats showed a mean figure of -3%, which shows a slight bias in favour of women, which we were very pleased with—that is a remarkably good result, particularly in the context of the property industry.

The way we communicated that to the business—we put it on our website as well—was to say, "We still have some work to do." If you look at the top of our business, our C-suite is three women and Paul, but if you look at Windsor, it is very male and that is where they are located. It is quite lumpy as a structure. Because there are only 450 of us in the business, a small number of changes at the top can swing the figure one way or the other. It has been quite an interesting process going through it.



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In terms of broader diversity, we are trying to unlock talent and support all the talent we have in the business. Paul and a number of our senior executives sponsor a number of different initiatives. That includes an LGBTI initiative with Stonewall, in which I am particularly interested, and Paul trying to get a better diversity of people coming into the profession. We do a lot of work with IntoUniversity, the Reading Real Estate Foundation, RICS and the RTPI to encourage a better pool of people from ethnic minorities and the working class so that it is not the usual suspects who come into a property business. We are very active across that whole piece. We are working on our board as well, making sure that we have got a very diverse board.

- Q56 **Nicky Morgan:** Was a lot of this already in train before the gender pay gap information had to be revealed? I am interested in knowing why. Was it down to the two individuals sitting here today being particularly motivated, or was it something that the organisation had already agreed as a priority?

Alison Nimmo: I think it has generally been a priority for the business, but as we have been transforming the business, if you like, from the traditional landed aristocratic estate, as Mr Malthouse described, into what we see as a modern, progressive business, it is part of how we are transforming how we do business, how we attract talent into the business and how we grow our own talent through the business, actually. I think it has been a great success story for us. We have had some real successes of bringing people through the business and giving them the opportunities, and particularly supporting young women to rise up through the business. Are we perfect? No. Could we do more? Yes. It is an issue that is very high up on the board agenda. Through broader corporate governance, I think it is coming through a number of businesses.

- Q57 **Nicky Morgan:** I think the occupational gap—that is what you call it—is reflected in the wider industry. Are there things that you have done that could be lessons for the wider property sector, or are you engaged in anything in the wider sector outside your own business in these areas?

Alison Nimmo: I would like Paul to talk a little bit about RREF and some of the work he has specifically championed. As a senior female chief executive, I work with quite a lot of businesses, and particularly in construction they are well behind property when it comes to this. I was one of the FTSE heroes a couple of months ago and am still top 10 now. It is something through real estate balance and other organisations where I have been reasonably active, but, as I say, not to the exclusion of all of the other aspects of diversity that I find quite important. Paul, you are on the board of RREF.

Paul Clark: Yes, I am on the board of Pathways to Property, which is a Reading University charity, the purpose of which is to broaden access into the sector from parts of society that do not usually get access to it: particularly families where kids are going to university for the first time and have no real-estate background. We do things like take sixth-formers on placement during half term. We run a summer school for a week. I



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know that the real estate industry often does not get a brilliant write-up when it comes to these sorts of things, but you will find that the vast majority—certainly of the listed sector—are all engaged with this at a senior level. When we have the summer school at Reading University, you will get people from up to and around chief executive level turning up for the last day of that to talk to the kids and give them some encouragement and insight.

- Q58 **Chair:** A couple of quick questions. Has the National Audit Office carried out any evaluative work such as value-for-money studies on any aspects of the business?

Alison Nimmo: Not as far as I am aware while I have been chief exec for six years. But they audit us on an annual basis. If they had any concerns, I am sure they would want to go back and dive into any aspect they were not happy with, but in all the time I have been here—I don't know about you, Paul—they have never qualified our accounts. They come and give us a very thorough look-over once a year and they seem pretty happy with how we run the business.

- Q59 **Chair:** You have specific restrictions from the Treasury on indirect borrowing through joint ventures. Are those constraints sensible? Would you benefit if they were removed or loosened?

Alison Nimmo: I think our results show that we can operate very effectively within our current constitution. If there was one thing on the wish list that we would change in the Act, it would be to be able to borrow to cover working capital—an element of limited borrowing for working capital. But in terms of borrowing in joint ventures, I think there is only one partnership where we have—

Paul Clark: There is a small amount in one partnership, set up more than 10 years ago, where the total borrowing is £200 million, and we have half of that, but in the context of a £13 billion portfolio.

- Q60 **Chair:** That is one change to the Act that you would like to see if possible. Are there any other important changes that Parliament and the Government ought to be considering?

Paul Clark: Well, if you ask the CIO of a business whether he would like to broaden the capital base—Alison's observations on borrowing are well made, but I think we ought to speak sometimes in defence of the 1961 Act, because it is quite vanilla. It basically says, "Invest in real estate and do it with cash." What it does for us is provide a real clarity of focus and a discipline in how we behave. Of course, there could be some improvements; if it were passed today, it would no doubt look different. But it has given us a great deal of clarity and focus; the playing field that we play on is clear to us.

There is a lot to be said for just taking straight real estate returns, unleveraged, and without using financial instruments, and using your own equity for development. Development is the riskiest thing we do; there is one sure-fire way to make it riskier, and that is to leverage it. Alison is



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correct when she says that we could well do with some working capital, because it would mean that the intensity of the way we have to recycle capital around the business would be eased, and it would help us to take an even longer-term view. But the Crown Estate Act as it stands has done us a reasonable service, and the returns we have generated over an extended period are evidence of that.

Chair: Thank you. That is helpful.

- Q61 **Kit Malthouse:** Notwithstanding our challenging questions, you have obviously had a great return, particularly this year—I think your net revenue profit is just shy of £329 million. How does this work from a dividend point of view? How much of that gets tipped into the Treasury and how much do you reserve for capital investment?

Alison Nimmo: That full figure—100%—goes to the Treasury.

- Q62 **Kit Malthouse:** So where does your surplus for investment come from?

Alison Nimmo: The Crown Estate Act is very specific that revenue is revenue and capital is capital, so it is quite an interesting way we run the business.

- Q63 **Kit Malthouse:** So all revenue is remitted to the Treasury.

Paul Clark: Income.

Kit Malthouse: Income, yes. But if you sell something for capital and there is a capital surplus—

Paul Clark: The capital stays within the business and is recycled.

- Q64 **Kit Malthouse:** That is your reinvestment. Okay. So the Treasury never takes any of the capital out.

Alison Nimmo: No. The legal owner of the assets is the Sovereign. In simple terms—it is much more complicated than this—they own the underlying assets, so that is recycled back in and the Treasury takes what we call our net revenue surplus—

- Q65 **Kit Malthouse:** So the Treasury could never use you as a piggy bank if they wanted to. The savings are the savings, and the interest that comes off those savings is all they ever get.

Alison Nimmo: Well, it's £328.8 million—I think they're quite happy with that as a return!

- Q66 **Kit Malthouse:** But if you were Chancellor of the Exchequer and looking for a couple of billion quid to plug a hole, you have whatever portfolio of £13 billion capital, which is in essence owned by the public sector—it is a public asset—but does the Act preclude the Chancellor from taking any of that capital?

Alison Nimmo: It does, because the capital and the underlying assets are owned by the Sovereign.

Q67 Chair: The final questions are on ownerless land that becomes public land. You have a role within this. It would be helpful if you could explain that to the Committee.

Alison Nimmo: I assume you are referencing escheat.

Chair: Escheat, yes.

Alison Nimmo: Escheat is the legal name for how, in UK law, the Government deal with ownerless property. The vast majority of ownerless property is dealt with by the Government, so Treasury solicitors or the Government Legal Department, but a small but significant number of those sites are disclaimed by a Treasury solicitor, and they become what is called subject to escheat. That means, as Mr Mann said, that they are orphan sites or ownerless sites.

The Crown Estate's role in respect of escheat properties is pretty narrow; it is limited to helping to respond to an owner who comes along and basically getting them back into private hands. The reason our role is so limited is that a lot of these sites might be grass verges or estate roads where a management company has gone into insolvency—they are potentially quite small and not very valuable assets. However, there is a small but significant number of quite big assets. In the case of Mr Mann's constituency, that might be a waste site in the middle of Worksop, it might be a steelworks in the north of England, or it might be an old coal site, and they have very significant liabilities attached to them.

To give you an idea of scale, we know of probably as many sites that are subject to escheat as we have in the whole of the Crown Estate. Our role is narrow, and we are very cautious about how we deal with these sites, because if we do anything that constitutes an act of management, the ownership, and therefore all the liabilities, could fall to us. That is not just on one site: if we set a public law precedent, all 7,000-plus-plus-plus sites would sit with us.

We are caught in a difficult situation, in that we have quite a narrow role. If an owner or a potential purchaser comes along and they are a suitable purchaser, after we have done consultation we can get those sites back into private ownership. But in an average year only about 5% of sites go back into private ownership, so it is an increasing issue. We get caught under our Act, because obviously it was never the intention of Parliament that the Crown Estate should become a guarantor of last resort for failed companies. We get caught, in some circumstances, between the very real public interest in sorting out these sites and the liabilities, and our constitution, which says that we have a commercial mandate—and, in fairness, in the middle of all that, the skills and expertise that we have to deal with some quite complex sites.

Q68 Chair: Some people might suggest that is a remit that does not fit too comfortably with your very successful work elsewhere and that it could be a distraction, if not a bit of a drain on your managerial time and resource. Is it worth considering where those responsibilities lie and



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whether this ought to be something that is thrown to you?

Alison Nimmo: We do the best job we can, but I do not think we are best placed to deal with properties that are subject to escheat. We have been talking to the Treasury about this for a while—as I say, it is a growing issue—and we would probably agree with your assessment.

Q69 **Chair:** I was about to ask whether you thought this, and then Mr Malthouse whispered that it should be for local authorities, which is my view, too. Is there a rational case that you have been made aware of for why this should not be for local authorities?

Alison Nimmo: I don't think it is for me to give the solution.

Chair: No, of course not.

Alison Nimmo: The challenge with a small but significant number of these sites is that they come with potentially massive liabilities. I do think it is an issue that needs to be thought through very carefully.

Q70 **Kit Malthouse:** Because of contamination?

Alison Nimmo: The site in Worksop is a classic example. It is not the only waste site that is an orphan site. There are suggestions of criminality and of people putting companies into administration and leaving behind big liabilities for the public sector to pick up, whether the local authority or the Environment Agency. It is part of a bigger problem. I do think that, given how it is dealt with at the moment, the Crown Estate gets caught in the middle a bit. I do not think it is an effective way of dealing with it. We would be happy to provide all the information that we can to see whether we can support the finding of an alternative solution.

Q71 **Chair:** Again, if you would like to drop us a note on that, we would be very interested. It does seem something of an anomaly if the Act that you are operating under constrains your ability to take certain actions even if you chose to, and you become something of a powerless player. That can only be an irritation all round.

Alison Nimmo: It does not work very well at the moment. As I said, it is being caught in the middle of an Act that requires us to act commercially. There are some really quite difficult issues that need to be sorted. If it is a coal mine that has been on fire, that is not necessarily something that you could give to a local authority or other body. Some of these things are very specialist assets that need specialist expertise. We would be happy to help inform a debate on alternative solutions, because it does not work. It is a very difficult situation at the moment.

Chair: Thank you very much for coming and giving evidence. Some very thought-provoking issues have been raised. Thank you for your time. We look forward to those notes, and we look forward to seeing you again at some stage—this Parliament will last long enough, I am sure—in future.