



**Crown Estate  
Scotland**  
Oighreachd a' Chrùin Alba

## Crown Estate Scotland (Interim Management)

(Hereinafter referred to as Crown Estate Scotland)

# Annual Report and Accounts to 31 March 2018





# Contents

<b>1. Overview</b>	<b>1</b>
<b>2. Performance Analysis</b>	<b>28</b>
Uncertainties that may impact performance	30
Overview of financial performance	32
Non-financial information	38
<b>3. Governance</b>	<b>42</b>
Members' report	43
Statement of Accounting Officer's responsibilities	43
Governance Statement	44
Remuneration and staff report	47
Parliamentary accountability and audit report	51
<b>4. Financial Statements</b>	<b>52</b>
Independent Auditor's report	53
Statements of comprehensive income	56
Statement of financial position	57
Cash flow statement	58
Statement of changes in capital and reserves	59
Notes to the financial statements	60

## Introduction

Welcome to Crown Estate Scotland's first annual report.

Crown Estate Scotland started operating on 1 April 2017 and as an interim body is tasked with managing the assets – which together comprise the Scottish Crown Estate – until new legislation implementing long-term arrangements comes into force.<sup>1</sup>

These assets stretch the length and breadth of Scotland. The seabed, 620 square kilometres of foreshore (just under half of Scotland's total), rural land, commercial property and the rights to wild salmon fishing and naturally-occurring gold and silver: the estate is a unique mix of land, property and rights.<sup>2</sup> How we manage it impacts thousands of businesses, communities and organisations – as well as the wider Scottish economy and environment.

In this report we outline what we have delivered in our first year of operation – and look ahead to the opportunities and challenges that we will work on with partners and tenants in 2018-19 and beyond.

<sup>1</sup> The Scottish Crown Estate Bill was introduced to Parliament in January 2018. It can be found at [www.parliament.scot/parliamentarybusiness/Bills/107415.aspx](http://www.parliament.scot/parliamentarybusiness/Bills/107415.aspx)

<sup>2</sup> Throughout this document, 'the estate', 'the assets' or the Scottish Crown Estate refers to the land, property and rights currently managed by Crown Estate Scotland. Within the estate, there are four categories of assets: Rural, Coastal, Marine (comprised of Aquaculture and Energy & Infrastructure), and Urban.

**1**

## **Overview**

In this section we give an overview of Crown Estate Scotland's purpose and activities. We also look at key risks and issues facing the organisation and give a high-level summary of performance in 2017-18.

## 1.1 Joint statement from the Chief Executive and the Chair<sup>3</sup>

**"Keep on doing what you do!"** was a comment from one of our 1180 coastal tenants when we conducted independent tenant satisfaction research in autumn 2017.

It's a simple phrase but coming during a time of ongoing change for Crown Estate Scotland, and having completed our first year as a new Scottish public body, this and other positive feedback we've had from tenants and partners has given us a great deal of reassurance. We don't take it to mean that we should stand still or not change – we need to continually develop and improve – but we do take it to mean that we are heading in the right direction.

We are very proud of what we have achieved over our first year. We are fully established, fully functioning and financially sound. We have formed the Crown Estate Scotland team – an expanded staff team and a strong board – with robust governance arrangements. We have sustained high quality tenant service and are continually investing in partnerships and relationships. We are laying the foundations for increasing the future contribution of the Scottish Crown Estate to a successful Scotland.

In 2017-18 we delivered on all fronts. In some areas, we excelled by surpassing challenging targets.

We agreed with Scottish Ministers that our first year would be focussed on delivering four main objectives. We list these in Section 1.2 and outline how we have delivered. In sections that follow, we provide more detail and analysis.

With approximately 40 staff, Crown Estate Scotland is a small organisation, albeit one with a wide reach.

Our activities span a variety of sectors – aquaculture, offshore renewable energy, farming, forestry and marine tourism – as well as nationally important infrastructure such as cables & pipelines and ports & harbours.

These sectors are all key to the wider Scottish economy and to delivering the Scottish public sector's purpose of creating a more successful country, with opportunities for all of Scotland to flourish through increasing wellbeing, and sustainable and inclusive economic growth.



Simon Hodge, Chief Executive of Crown Estate Scotland

We support and enable these sectors' growth by demonstrating best practice as a landlord, funding and coordinating research to inform industry development, and working with others to continually improve our understanding of the assets and the benefits they can deliver for Scotland.

Crown Estate Scotland is a self-financing body and, following careful financial and property management, we exceeded our 2017-18 revenue profit target, making contributions totalling £9m to Scottish Government (over £3m more than target) to benefit public finances. In addition, following a number of transactions including the sale of one farm, we carried out £2.2m of capital investment across the four rural estates and built up a capital reserve for reinvestment.

Having started operating on 1 April 2017 with no capital or revenue funds, this financial stability and strength is a significant achievement for our first year.

<sup>3</sup> Simon Hodge joined us as Chief Executive in April 2018 so this report reflects the achievements of his predecessor Ronnie Quinn working with the staff team and the Board. The Board was established in May 2017 following appointment by Scottish Ministers. For more see [www.crownestatescotland.com/about-us/structure-governance](http://www.crownestatescotland.com/about-us/structure-governance)





Chair Amanda Bryan at Glenlivet Estate

**£9m** to public finances

**£3m** over target

**£2.2m** capital invested in rural estates

Last year we also prioritised engagement, meeting tenants and other stakeholders across the country. We carried out staff, tenant and stakeholder research to ensure that we know what we, as an employer and land manager, do well – and what we can improve. This research has informed the activity and targets in our [2018-19 business plan](#).<sup>4</sup>

Importantly, we made concrete progress in establishing a new process to enable development trusts, local authorities and other organisations to apply to manage assets locally. This is part of our commitment to develop local decision-making and success.

We developed our [2017-20 Corporate Plan](#)<sup>5</sup> setting out how we will contribute to Scotland's overall social, economic and environmental prosperity, and our draft Investment Strategy which will be finalised following a Strategic Environmental Assessment.

Investment will aim to maintain and enhance the value of the estate, increase the resilience and diversity of income streams generated from it, and improve the social capital and environmental impacts derived from the assets.

The staff team have risen to the challenge – and more. Following an intensive two-year programme of activity to prepare for devolution from The Crown Estate on 1 April 2017, they have worked incredibly hard to deliver both financial success and the high standard of service that our tenants rightly expect.

Thanks also to our managing agents at Bidwells and Savills and to our other partners who provide a range of professional services and support. They too have gone 'above and beyond', often working in challenging circumstances.

The success of 2017-18 means we now have a strong platform for building the longer-term future of the organisation when new legislation is implemented.

We hope this report provides an informative and balanced summary of work to date. Please do contact us (details on the back cover) should you have any comments or queries.

**Simon Hodge, Chief Executive**  
**Crown Estate Scotland (Interim Management)**

**Amanda Bryan, Chair**  
**Crown Estate Scotland (Interim Management)**

Date 22 August 2018

<sup>4</sup> See [www.crownestatescotland.com/maps-and-publications/download/171](http://www.crownestatescotland.com/maps-and-publications/download/171)

<sup>5</sup> See [www.crownestatescotland.com/maps-and-publications/download/115](http://www.crownestatescotland.com/maps-and-publications/download/115)

## 1.2 2017-18 objectives and what we delivered

### WHAT WE SAID WE WOULD DO

**Maintain gross revenue and manage operating costs**

### WHAT WE DID

- Generated total turnover of £16.4m (against budget of £14.7m) reflecting a particularly strong year for aquaculture, with higher than anticipated finfish production<sup>6</sup>
- Exceeded revenue profit target by over £3m, with a total of £9m contribution to Scottish Government to benefit public finances
- Introduced measures to deliver efficiencies and savings including a new procurement policy, re-tendering of professional services and effective contract management
- Continued to invest in staff development and technology to ensure we benefit from new tools and techniques in areas such as digital communications, procurement, cyber resilience and data management

<sup>6</sup> Due to rounding, numbers throughout Sections 1 and 2 may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

### WHAT WE SAID WE WOULD DO

**Establish recognition of Crown Estate Scotland by continuing to build strong partnerships with customers and stakeholders, and by changing how we engage with communities and coastal local authorities**

### WHAT WE DID

- Carried out engagement, communication and partnership working to raise awareness and understanding of our role. This covered a wide-range of activity including Board visits across Scotland, a parliamentary reception, and supporting a number of community, education and environmental projects
- Embedded our new core value of collaboration in day-to-day operations with a particular focus on working as part of the public sector's 'Team Scotland' - for example, reviewing with the economic development agencies how we can lease seabed in a way that helps deliver broader socio-economic benefits
- Conducted independent research with tenants and stakeholders.<sup>7</sup> Results show very high awareness and a good level of knowledge of Crown Estate Scotland (more in Section 1.5)
- Used these results and other feedback to develop our engagement charter (which aligns with Scottish Government Guidance on Engaging Communities in Decisions Relating to Land and the National Standards for Community Engagement) and our tenant charter

<sup>7</sup> See summary of results at [www.crownestatescotland.com/maps-and-publications/download/167](http://www.crownestatescotland.com/maps-and-publications/download/167)



## WHAT WE SAID WE WOULD DO

**Identify and sell assets to raise up to £10m that can then be reinvested with the aim of creating a more balanced property portfolio**

## WHAT WE SAID WE WOULD DO

**Prepare the organisation to respond to Scottish Ministers' long-term objectives for the management of the estate**

## WHAT WE DID

- Raised £10.1 million in capital receipts, with a net balance (before transfers from revenue) of £7m. This includes
  - The sale of one farm (situated on the Applegirth Estate)
  - The final instalment of a capital receipt for sale of land for residential development on the Whitehill Estate
  - Income from a servitude right at Glenlivet for an electricity connection for an onshore wind farm on an adjoining estate
  - The sale of 8.2 hectares of land across two sites at Applegirth for commercial / industrial developments
  - The sale of cottages at Fochabers & Stirling
  - £1m received from offshore wind tenants as they reached project and / or financial milestones
  - £0.5m from capital dredging income and small sales of foreshore and nearshore seabed
- Invested £3.2m expenditure covering
  - Strategic research and studies to support development of the offshore renewable energy sector
  - Staff costs where the roles are focused on growing the value of the estate
  - £2.2m in agricultural fixed equipment, tenancy restructures, infrastructure and forestry across the four rural estates (more detail in Section 1.5)

## WHAT WE DID

- Developed and consulted on our Local Asset Management Pilots Scheme which enables community bodies and local authorities to manage Scottish Crown Estate land and property (see Section 1.5)
- Started to develop a framework to assess the wider benefits and value that the Scottish Crown Estate assets deliver for Scotland, including a trial of the Natural Capital Protocol. This is a significant project which we will continue to develop in 2018-19
- Developed the initial design of a proposed new offshore wind leasing round, with input from industry, government and non-governmental organisations (NGOs). This aligns with Scottish Ministers' desire for the offshore renewable energy leasing to continue to be managed at a national level and to use Scotland's seas to help meet ambitious government climate change targets
- Started working towards voluntary land registration to promote transparency, scoping estimated resource required and setting a 2018-19 target of registering 25% rural and coastal assets (dependent on staff time and budget)





## Case study 1

### Helping Scotland 'value' nature

Agriculture is a huge part of the Scottish economy, employing 67,000 people making it the third-largest employer in Scotland.

Our farming tenants are helping that sector to grow and develop with support from Crown Estate Scotland through our ongoing investment programme and a range of projects to tackle issues such as biosecurity and animal welfare.

In 2017-18, we led a trial of the Natural Capital Protocol to help define and examine the value of natural assets.

Tenant farmers took part in a pioneering project to test the degree to which the internationally used Natural Capital Protocol is applicable and useful to land based businesses. This was done in partnership with Scottish Natural Heritage, Scottish Environment Protection Agency, Scottish Land & Estates, the Scottish Forum on Natural Capital, the James Hutton Institute and SRUC.

Tenant farmer Jim Simmons said: "The trial has been really useful in helping to increase my awareness of how our business may impact the natural environment. It'll help us to make more informed decisions about how to improve our farming operations going forward, both in economic and environmental terms."

Crown Estate Scotland Head of Property, Andrew Wells, said: "This has been a promising start as we try to find a way to better understand how land businesses can use emerging tools like this to better understand their impacts and dependencies on natural resources and make more sustainable business decisions.

"The rural sector is facing a lot of uncertainty and the natural capital approach provides a different way of measuring and assessing business impacts and understanding opportunities for the long term sustainable use of land."



## 1.3 Who we are and what we do

Crown Estate Scotland is a public corporation tasked with managing the estate, returning revenue profit to the Scottish Government. Ownership lies with the Monarch and management responsibility sits with Scottish Ministers who in turn delegate to Crown Estate Scotland.

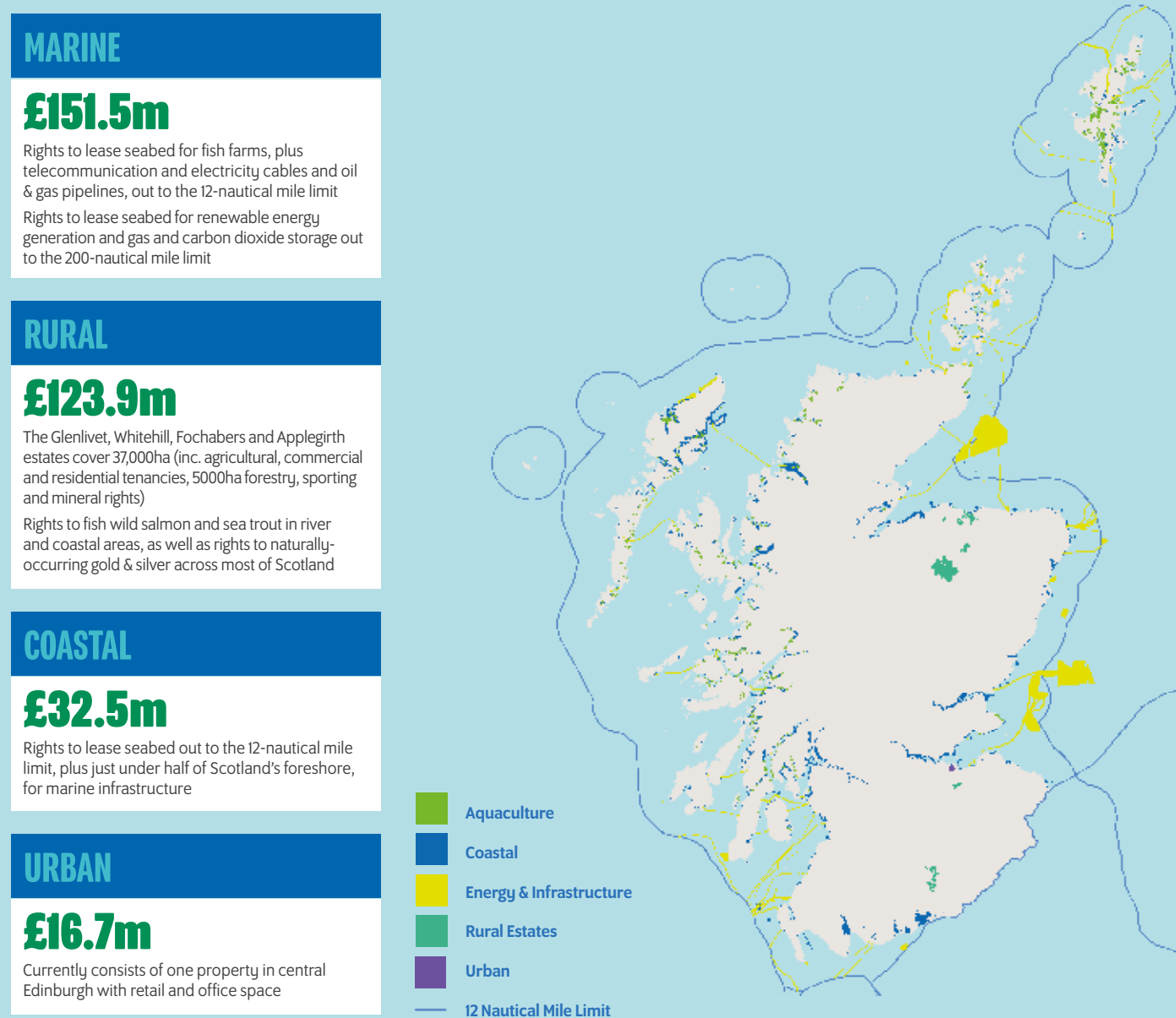
As a public corporation, we are distinct from other forms of public bodies. Our commercial activity is under direct Government control, the Scottish Ministers appoint our Board but we appoint staff (who are not civil servants), and we manage our own budget.

Importantly, we are a net contributing body – we generate income that is returned to Scottish Government.

We operate under a [Framework Document](#) agreed with the Scottish Government. This details the organisation's functions, duties, powers, and roles and responsibilities.

The estate is a unique mix of land, property and rights, with a total property value of £324.6m.<sup>8</sup> It is split into four categories. It includes ancient rights held by The Crown in Scotland (e.g. wild salmon fishing) as well as some land and property that has been acquired over time (e.g. Glenlivet Estate).

## Map of assets with property value<sup>9</sup>



<sup>8</sup> As at 31 March 2018, assessed by independent valuers. Figures have been rounded.

<sup>9</sup> Property value as at 31 March 2018, assessed by independent valuers. Figures have been rounded. Aquaculture is £27m and Energy & Infrastructure (offshore renewables, cables & pipelines) is £124.5m.

## Purpose

As an interim body, Crown Estate Scotland's purpose is to provide continuity in tenant service and asset management while delivering revenue and capital growth. This in turn supports the Scottish public sector's overall purpose of creating a more successful country, with opportunities for all of Scotland to flourish through increasing wellbeing, and sustainable and inclusive economic growth.

Our goals and objectives align closely with the Scottish Government's recently updated National Performance Framework (see Corporate Plan, Section 4.1), Economic Strategy and Energy Strategy.

Our current legislative / statutory framework includes a duty to ensure 'good management' as well as securing best consideration. In practice, this means obtaining market value (for leases, sales and other transactions) while contributing to Scotland's economic, social and environmental well-being and prosperity. This is reflected in our strategic objectives (see p10).

## Business model – partnerships and the long-term view

As a landlord, our success is intertwined with that of our tenants. We aim to support them in helping them realise their ambitions, be that a farmer who wants to diversify, a community trust developing new facilities or a port seeking to expand operations and capacity.

We also need to pro-actively identify and support emerging opportunities that will deliver revenue and capital growth as well as broader environmental and socio-economic benefits e.g. offshore renewable energy.

Our business model is based on this role as landlord, catalyst and supportive partner.

We have 40 staff based at our offices in Edinburgh and on the Glenlivet and Fochabers Estates in Moray. Our Board, which currently comprises six members plus our Chair, all of whom are non-executives, provides strategic direction and oversight (more on our Board is in Section 3).

We contract teams of managing agents to provide specialist expertise, property management services and support in rural and coastal areas. Our lawyers also play a key role. A core team with outsourced support gives us flexibility and access to a wide range of expertise whilst helping manage costs.

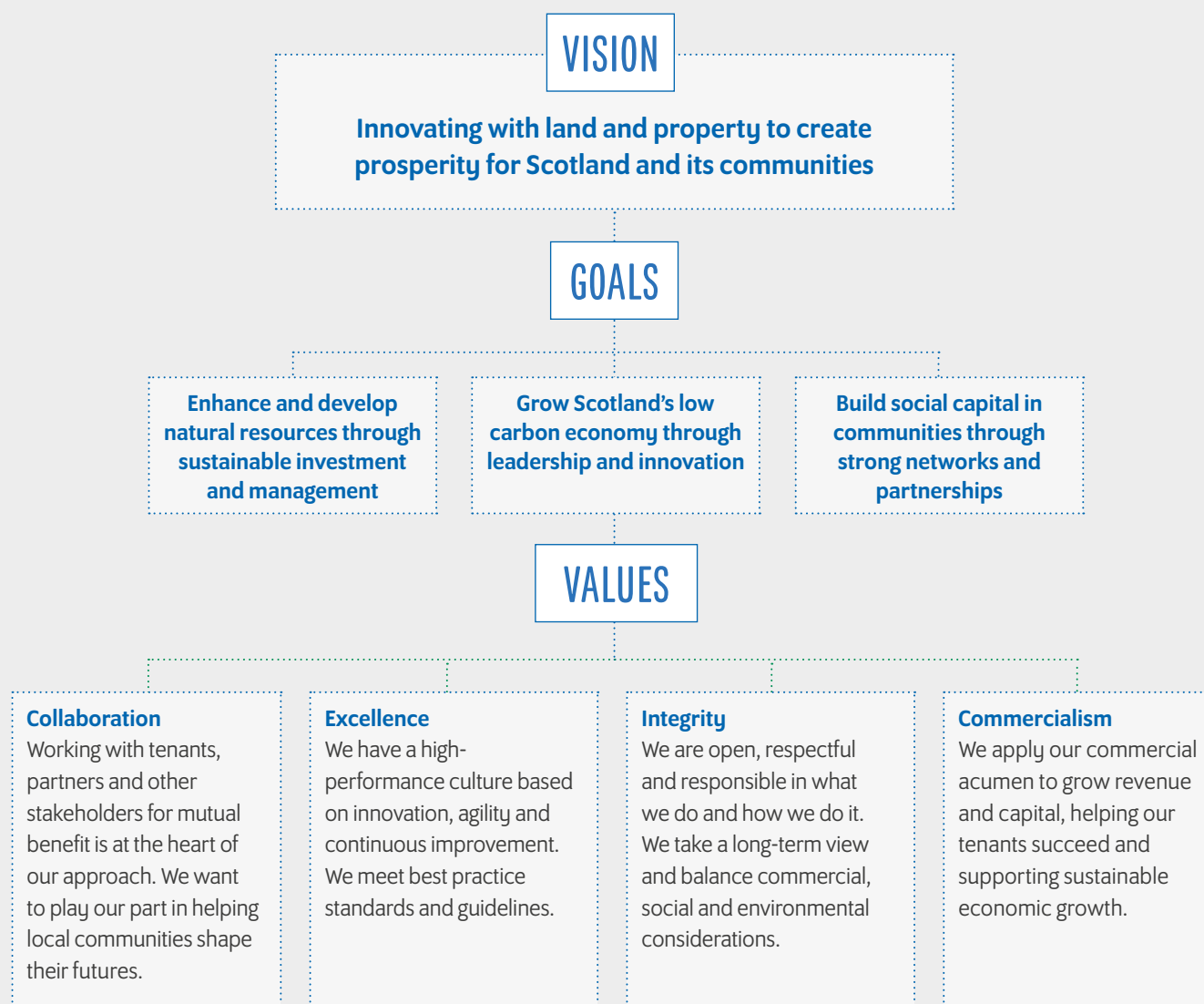
The nature of the Scottish Crown Estate assets (with ownership residing with the Monarch), our role and purpose, and our public accountability, means that investing with a long-term view and working in partnership is central to all that we do.

This is reflected in our vision, goals and values.

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**“ Our business model is based on this role as landlord, catalyst and supportive partner. ”**

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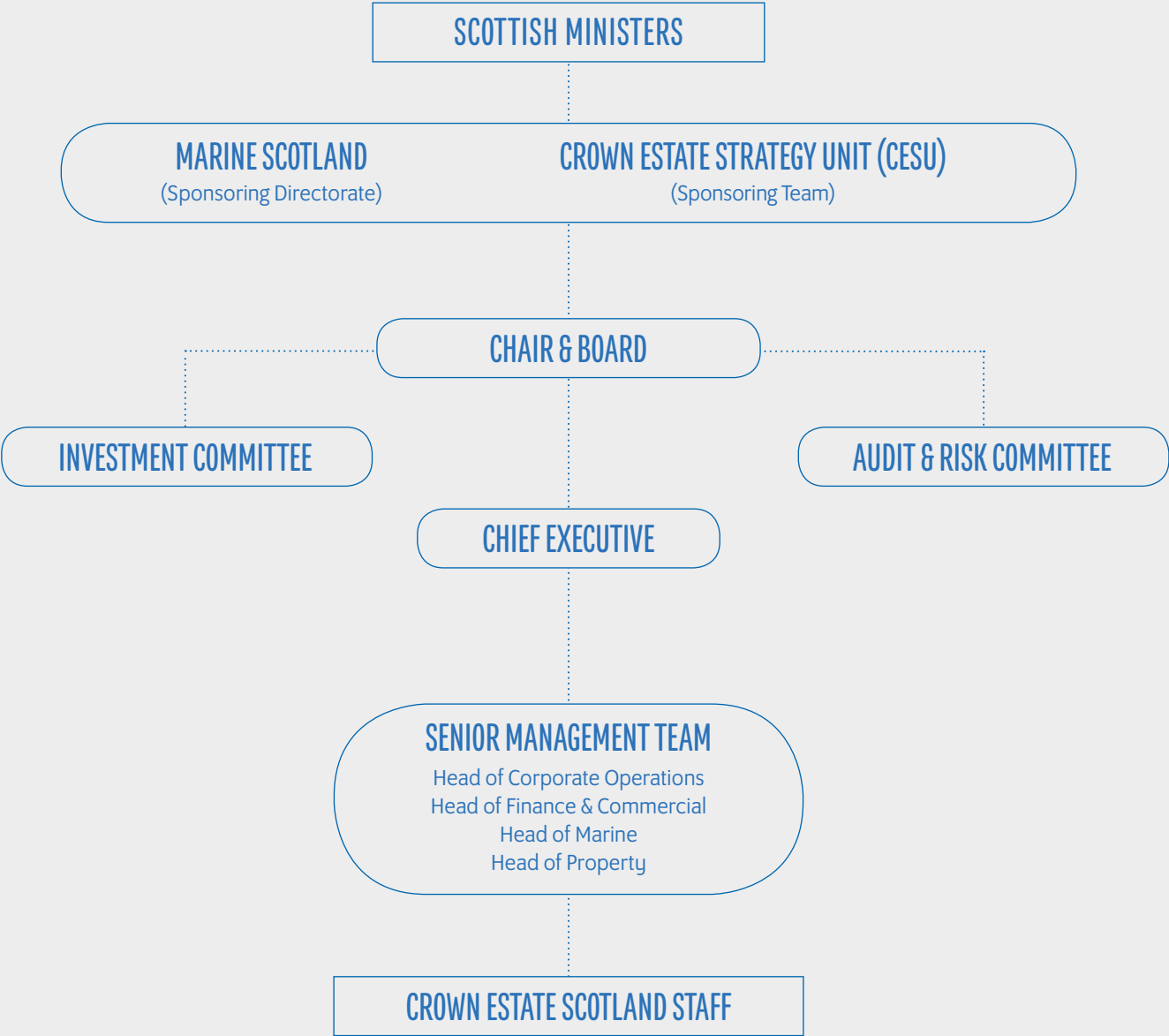
## Strategic objectives

Our strategic objectives, as laid out in our 2017-2020 corporate plan, are to

1. Contribute to Scotland's economic, social and environmental well-being
2. Grow revenue and enhance capital value of the estate
3. Develop local decision-making and success, with a particular focus on communities and coastal local authorities
4. Build confidence and trust in the organisation
5. Develop and deploy our people's expertise to deliver success

Our governance structure is illustrated on p11 and our organisational structure is at [www.crownestatescotland.com/about-us/structure-governance](http://www.crownestatescotland.com/about-us/structure-governance).





## Case study 2

### Supporting Islands' economic development

We are working closely with Stornoway Port Authority (SPA) on the Isle of Lewis to maximise the enormous potential of its 20-year Master Plan which includes a deep-water port and new marina.

The deep-water port proposal is crucial to accelerate local growth in the burgeoning cruise business, by providing improved facilities for larger ships that cannot currently berth alongside.

To develop the cruise market, Stornoway needs a facility for berthing cruise ships up to 350 metres long. This would attract an additional 35 to 40 vessels a year and significantly increase passenger visits, creating new business opportunities throughout the island.

A new marina is also planned to overcome a shortage of yacht berths and amenities that is constraining potential growth in marine tourism.

Both these projects will be built partially on seabed managed by Crown Estate Scotland. We've provided help and advice to the port authority to clarify issues relating to properties, titles and leases - including some dating back 130 years.

We are also working with SPA and other partners to find innovative funding solutions to ensure these highly ambitious projects proceed.

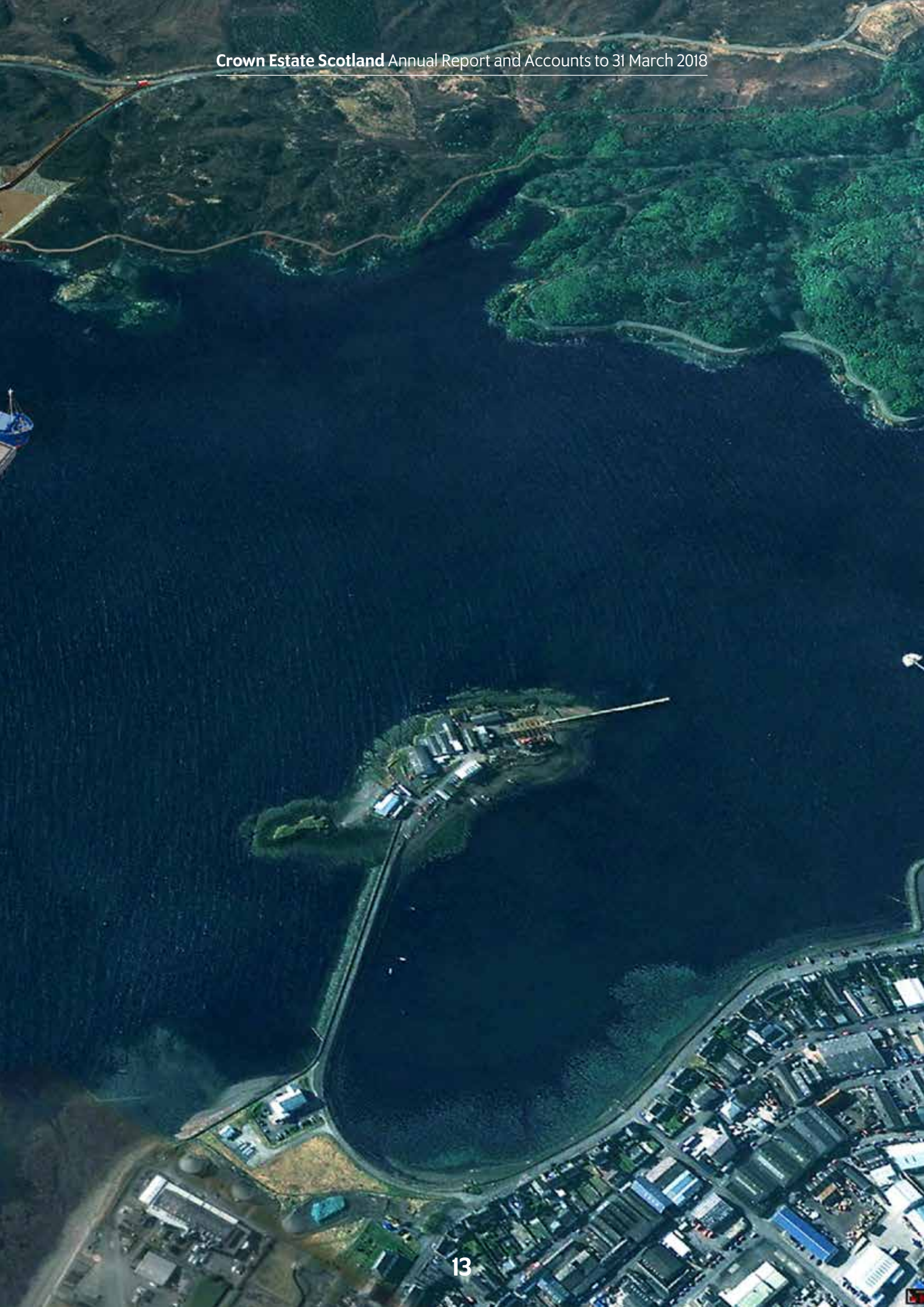
Joint working has already led to leases to the ferry terminal and the existing marina being renewed and it's planned to have all community moorings properly regulated and managed by the end of 2018.

Paul Bancks, Coastal Asset Manager at Crown Estate Scotland, said: "We've built a fantastic working relationship with the Port Authority, which is helping drive forward the changes needed to make sure Stornoway will be able to maximise its potential as a base for cruise ships. It's been a project which has brought together a number of interested groups in Stornoway and, as the leasing body responsible, we're looking forward to continuing to help the Port Authority maximise the opportunities of the port and marina."

Alex Macleod, Chief Executive of the Stornoway Port Authority, said: "Resolving these various issues of leases and titles has been a complex process, but Crown Estate Scotland has been extremely helpful and we are very grateful for their assistance."

"Our Master Plan has the potential to be an economic gamechanger for Stornoway. Working with partners like Crown Estate Scotland, we can build the framework to allow us – and the wider community – to capitalise fully on this opportunity."





## 1.4 Forward-look for 2018-19 and beyond

New primary legislation, the Scottish Crown Estate Bill, is currently being considered by the Scottish Parliament (the Bill passed Stage 1 on 19 June 2018).

It proposes introducing mechanisms for other bodies ('managers') to manage parts of the Scottish Crown Estate. It also proposes removing 'Interim Management' from our name, signalling a longer-term role for the organisation and providing certainty to staff and tenants.

Our immediate focus is continuity of tenant service while ensuring the business is well-placed to adapt to this new legislation when it is implemented.

To deliver our 2017-20 strategic objectives, in 2018-19 we will:

- Develop a leasing process to enable new offshore wind projects to start operating mid-2020s onwards (contributing to strategic objectives no 1 & 2)
- Continue investment in the rural estates, including infrastructure and farm buildings, and close working with our tenants ahead of Brexit (strategic objectives no 1 & 2)
- Implement a robust and transparent process (the [Local Asset Management Pilots Scheme](#)) that enables organisations to apply to manage assets in their locality (strategic objective no 3)
- Develop a method of measuring environmental, social and financial value (strategic objective no 1)
- Strengthen partnerships and retain high levels of trust and confidence (strategic objective no 4)

The organisation and the staff team have managed a significant amount of change in recent years. To help us transition from an interim body to a permanent one will require a strengthened staff team and, potentially, new or enhanced systems.

We also need an organisational structure and working practices which reflect emerging needs and opportunities (strategic objective no 5). These include the requirements on public bodies regarding reporting, consultation and communications, knowledge management, and alignment with Scottish Government policies on both land and property management and, importantly, employee relations. With the latter in mind we will in 2018-19 work to align more closely with the five dimensions of Fair Work and with Scottish Government Pay Policy.

### The key issues and risks that could affect the entity in delivering its objectives

The diversity of the portfolio is both a strength (in terms of managing financial risk and identifying synergies between different assets and sectors) and a challenge (managing policy and regulatory risk as well as maintaining our expertise, profile and visibility across so many sectors).

The following tables provide a range of information including opportunities, operating environment and key risks related to specific parts of the business. Risk mitigations include processes and controls, transferring liabilities, informing and analysing emerging policy and close working with tenants with wider stakeholders. Our expertise – both in the core staff team and in our wider pool of outsourced support – plays a crucial role in identifying and managing risk. Strategic risk is covered in Section 2.1.1.

**Table 1: Operating environment, policies, stakeholders and look ahead**

Asset	Operating environment	Policies impacting performance	Stakeholders	Look ahead, opportunities to create value
<b>Rural</b>	<p>The agricultural sector is facing a degree of uncertainty as Brexit approaches. Existing subsidy levels will remain until 2022, but the longer-term outlook depends on the new regime.</p> <p>Agricultural tenancies place responsibility for new / replacement fixed equipment and other obligations on Crown Estate Scotland as landlord. With over 200 agricultural tenancies, this responsibility has a strong bearing on our capital planning.</p> <p>Forestry values continue to appreciate while river fishings values are impacted by reduced catches and the continued decline in salmon populations.</p>	<p>Aligning with the 2017-18 Programme for Government and wider Scottish Government policy framework, our priorities include encouraging new entrants (Scottish Government's <a href="#">Farming Opportunities for New Entrants</a>), diversification, and investment by tenants, working to build resilient farm businesses, identifying new income streams and enhancing natural capital.</p>	<p>Tenants, local communities, development trusts, local authorities, industry bodies and farmers' unions, FCS (Forestry Commission Scotland) and Scottish Land Commission, SNH (Scottish Natural Heritage), SEPA (Scottish Environment Protection Agency), HLF (Heritage Lottery Fund), HIE (Highlands and Islands Enterprise) and SLE (Scottish Land &amp; Estates), national parks and District Salmon Fishery Boards &amp; Local Fishery Trusts, Fisheries Management Scotland.</p>	<p>We want to remain a champion of integrated, multiple-use land management.</p> <p>Glenlivet – located in the UK's largest national park – demonstrates how farming, conservation, tourism and sporting can work side-by-side and help regenerate rural communities.</p> <p>Our three other estates also evidence this approach to integration combining farming, residential, mineral operations, sporting &amp; development land.</p> <p>The diversity of the rural estate provides a range of opportunities for growth. This is balanced by some uncertainties particularly in regard to the impact of Brexit.</p> <p>The uncertainty surrounding the impact of Brexit and other factors mean there is limited potential rental growth from land let for agriculture.</p> <p>Continuing to explore and support other commercial land uses such as mineral operations remains an area of focus.</p>
<b>Coastal</b>	<p>Scottish ports saw significant drops in tonnages of cargo between 2010 and 2016 due mainly to global economic factors and, in the case of Hunterston, the closure of the last coal fired power stations in Scotland. Inward investment and diversification into the cruise ship and decommission markets have started to reverse this trend.</p> <p>The marine leisure market has proved to be resilient but faces challenges if it is to grow e.g. the availability of capital for infrastructure works, an ageing demographic and competition from other leisure sectors.</p>	<p>A key consideration in our work with coastal assets is Scotland's National Marine Plan which was developed by Scottish Government to reflect the range of sectoral uses and activities. Two key areas of focus are ports and marine leisure tourism.</p>	<p>Tenants, users of the marine environment across a range of sectors, activities and industries, harbour authorities, sector and industry bodies e.g. British Ports Association, VisitScotland, RYA Scotland, and coastal communities generally.</p>	<p>Though there are limited opportunities for generating capital, there is a resilient ports sector with major investment projects underway.</p> <p>Marine leisure is a key component of the Scottish tourism market. Industry bodies are working to make Scotland "A marine tourism destination of first choice for a high quality, value for money and memorable customer experience."<sup>10</sup></p> <p>We will continue to support marine and coastal tourism initiatives and the 'Awakening the Giant' strategy.</p>



Asset	Operating environment	Policies impacting performance	Stakeholders	Look ahead, opportunities to create value
<b>Marine (Energy &amp; Infrastructure)</b>	<p>The route to market – covering issues relating to grid, financial support, and access to appropriate seabed – remain key for the offshore renewables sector. Global and national carbon reduction targets continue to drive investment in R&amp;D, commercialisation and supply chain. The demand for green electricity will grow as heat and transport are decarbonised.</p> <p>Lead-times for projects are typically up to 10 years and technology development spans years, sometimes decades. This means that we need to plan far in advance and be flexible.</p>	<p>Government policy continues to be central to offshore energy development, with private sector investment largely contingent on contracts awarded by the UK Government for low carbon generation.</p> <p>We work closely with Scottish Government to understand emerging policy and how we can best contribute to delivery. New leasing for offshore renewables will be in accordance with Marine Scotland's forthcoming Sectoral Plan for Offshore Wind.</p>	<p>Government and economic development agencies, statutory nature conservation bodies, industry bodies, regulators and planning authorities, energy developers and local authorities.</p>	<p>Offshore wind contribution is increasing and will continue to as new projects start operating.</p> <p>Wave and tidal energy technologies are currently less widely deployed and are at an earlier stage of commercialisation, with potential to grow in future.</p> <p>Oil &amp; gas, which accounts for most of our offshore pipeline agreements, is undergoing structural change as the North Sea basin matures. Meanwhile, there may be a demand for more electricity transmission cables.</p> <p>Domestic telecommunications are increasingly driven by community-focussed agendas while cables for large-scale and international telecommunications may offer some development potential.</p> <p>There is potential for carbon storage but the scale and timing of activity in this area will be influenced by the market models adopted, and the effect of other policy and regulatory factors.</p>
<b>Marine (Aquaculture)</b>	<p>Global demand and prices for salmon remain buoyant meaning that Scotland, with 12,000 employees in processing and supply chain, must work to maintain its place as an attractive place to invest, live and work.</p> <p>There is increased interest in seaweed cultivation and harvesting as demand from pharmaceuticals, food and cosmetic industries grow.</p>	<p>The sector benefits from clear government support for its development ambitions.</p> <p>Aquaculture is subject to Scotland's National Marine Plan, local authorities' development plans as well as the objectives of Scotland Food &amp; Drink's Aquaculture 2030 Vision project.</p>	<p>Consenting and planning authorities and others who use the marine environment, including fisheries, commercial and recreational navigation (e.g. RYA Scotland), coastal and island communities. For farmed salmon, District Salmon Fishery Boards and Trusts are priority stakeholders as are cetacean and seal conservation groups.</p>	<p>Brexit-related uncertainties include the possibility of trading tariffs and the strength of the sterling.</p> <p>There are challenges however, including biological and environmental pressures (e.g. sea lice in farmed salmon, visual impact of farms, water quality for shellfish), a regulatory regime that is perceived as complex and, for shellfish, access to development finance.</p> <p>There is an opportunity to grow the emerging seaweed / alginate industry in Scotland in a socially and environmentally sustainable way.</p>
<b>Urban</b>	<p>Urban property market continues to be influenced by economic uncertainty.</p> <p>Although 2016's growth in the retail sector did not continue into 2017, the Edinburgh office market has performed solidly with increasing levels of take up, solid occupier demand and reducing supply of good quality space.</p>	<p>The Scottish Government's Economic Strategy and Agenda for Cities make a clear commitment to supporting investment in cities and their regions.</p> <p>Ensuring office, retail and other types of accommodation are of a high quality, by creating sustainable, efficient and desirable spaces, helps to attract businesses, consumers, employers and employees to city centres bringing related economic and social benefits.</p>	<p>Tenants, local authorities, business improvement districts and other organisations such as Chambers of Commerce.</p>	<p>Due to the attractive returns and relatively low property management requirements, urban property (acquisition and redevelopment) is a potential candidate for further investment. This will be explored as we further develop our investment strategy.</p> <p>We will also explore the opportunities for urban property development and the alternatives for optimising total contributions from our strategic landholdings.</p>



**Table 2: Key risks associated with specific parts of the business**

Asset	Description	Impact	Mitigation
<b>Rural</b>	Brexit and associated impacts on agricultural support affects tenant business viability.	Significant impacts on tenant farmers leading to tenant defaults, a lack of husbandry and reduced revenue over many years. Potential to impact on in-hand forestry, reduced capital value and increased costs.	<p>Help provide business planning support and advice to tenants.</p> <p>If necessary look for opportunities to rationalise farm holding structure into viable units.</p> <p>Diversify portfolio to lessen impact of major collapse in one or more core sectors.</p>
<b>Coastal</b>	Insufficient funds to maintain and improve marine assets.	Reduction in capital value, low revenue growth, deterioration of existing assets, increased maintenance costs, increase in liabilities with associated financial and Health & Safety implications.	<p>Build coalition of support for capital investment.</p> <p>Ensure incoming tenants are of sufficient standing to meet lease obligations, including decommissioning and seabed restoration.</p>
<b>Marine (Energy &amp; Infrastructure)</b>	Capital investment required to create new offshore wind infrastructure may not be attracted to Scotland.	Projects not developed, Scotland's renewable energy and other policies not advanced, revenue and capital potential not realised, loss of staff expertise.	<p>Early engagement with industry (to establish market appetite and key issues), UK and Scottish governments, and NGOs and sector bodies that may be impacted.</p> <p>Reducing consenting risk for project development by committing to lease in accordance with Marine Scotland's forthcoming Sectoral Marine Plan for Offshore Wind.</p>
<b>Marine (Aquaculture)</b>	Significant disease impacting aquaculture production, sector development and rental income.	<p>Large scale outbreak of fish disease.</p> <p>Significant impacts on fish farmers leading to tenant defaults and reduced revenue over many years.</p>	<p>Promote best practice and help fund R&amp;D.</p> <p>Work closely with tenants to manage economic impacts.</p> <p>Discuss possibility of additional sites to remove healthy stock from risk area.</p>
<b>Urban</b>	Significant void period/s following upcoming lease expiries and tenant break options.	Reduced revenue.	Dialogue with tenants and proactive and timely marketing strategies.



Work boat lifting bags of harvested mussels ashore.  
Credit: Seafish





## Case study 3

### Helping the shellfish industry thrive

The shellfish industry brings in almost £10 million to the Scottish economy<sup>11</sup> with the bulk of production happening under lease from Crown Estate Scotland.

We support the growth and development of this industry which in turn supports employment in remote areas, particularly islands.

In 2017-18, in conjunction with the Association of Scottish Shellfish Growers, we funded new research to establish where and how collective investment could help the Scottish shellfish sector grow and expand over the coming years.<sup>12</sup>

Crown Estate Scotland Aquaculture Operations manager, Alex Adrian, said: “A better understanding of economic drivers and challenges of a viable shellfish industry and how this translates

into the nature of businesses and developments is vital if Scotland is to realise the undoubted potential of this sector.”

Dr Nick Lake, Chief Executive of the Association of Scottish Shellfish Growers said: “For the sector to continue to develop, it’s important that the wider business interests are recognised and planned for within the overall management framework for Scottish aquaculture. The ASSG values the close joint working with Crown Estate Scotland focussed on ensuring the benefits of growing this sector are realised for both individuals and the wider Scottish economy.”

<sup>11</sup> [www.gov.scot/Topics/marine/Fish-Shellfish/FactsandFigures](http://www.gov.scot/Topics/marine/Fish-Shellfish/FactsandFigures)

<sup>12</sup> See [www.crownestatescotland.com/maps-and-publications/download/11](http://www.crownestatescotland.com/maps-and-publications/download/11)

## 1.5 2017-18 performance summary

### Highlights from 2017-18

Here we highlight further key activities with reference to the 2017-18 Business Plan (actions completed) and the 2017-20 Corporate Plan (Key Performance Indicators that the 2017-18 activity contributed towards).

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**Wider stakeholders (such as industry and membership bodies and NGOs) rated Crown Estate Scotland staff trustworthiness at 8.2, expertise at 8.2 and professionalism as 8.1** ”

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### Corporate

#### 1. Delivering tenant and stakeholder satisfaction<sup>13</sup>

- Independent research with tenants and stakeholders showed the following results (with 1 poor and 10 excellent):
  - High levels of awareness of Crown Estate Scotland among tenants (99%) and key stakeholders (100%), following a comprehensive engagement and communications programme
  - The majority of agricultural, residential and aquaculture tenants surveyed stated that they were quite knowledgeable about Crown Estate Scotland. Many would speak positively of Crown Estate Scotland to others (ratings range from 6.7 to 7.9)
  - Over 70% tenant satisfaction. Feedback on what we can improve has been used to develop a tenant service charter as well as informing changes in how we communicate with tenants
  - Wider stakeholders (such as industry and membership bodies and NGOs) rated Crown Estate Scotland staff trustworthiness at 8.2, expertise at 8.2 and professionalism as 8.1
  - Lower ratings were given on quality of communications (6.8), responsiveness (6.8) and understanding tenant needs (6.7), with research results noting that ratings here were not particularly negative but rather a number of stakeholders said it was too early in the life of Crown Estate Scotland to rate these aspects more positively
  - 70% of stakeholders interviewed stated that they believed the methods of engagement we use are satisfactory. Where this was not believed to be the case, this was due to limited rather than unsatisfactory engagement

**Business Plan action no: 1, 2, 3**

**Corporate Plan KPIs: 7, 8**

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<sup>13</sup> See summary of results at [www.crownestatescotland.com/maps-and-publications/download/167](http://www.crownestatescotland.com/maps-and-publications/download/167)

## 2. Creating new opportunities for local communities to manage assets

- Developed a robust, open and transparent process for our Local Asset Management Pilots Scheme
- This was informed by a series of meetings and workshops across Scotland, as well as a consultation on the draft Scheme. The Scheme, launched in June 2018, enables communities and local authorities to apply to Crown Estate Scotland to manage Scottish Crown Estate assets in a way which will improve the economic, social and environmental well-being of their local area. This initiative marks a step-change in how the assets are managed, signalling our drive to involve communities much more

**Business Plan action no: 4**

**Corporate Plan KPIs: 2**

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## 3. Strengthening partnerships through education and community work

- This included:
  - Supporting STEM education for young people through the Scottish Council for Development & Industry's Knot to Watts school competition to design an offshore wind turbine
  - Setting up a conservation wildlife volunteer group at Glenlivet
  - Funding Clyde River Foundation's Clyde in the Classroom initiative which teaches thousands of children each year about brown trout, the river and the local environment
  - Supporting the [Better Conversations](#) project which encouraged engagement between businesses and different local interest groups to support community action

**Business Plan action no: 1, 4**

**Corporate Plan KPIs: 8, 18**

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## 4. Ensuring openness and good governance

- Structures to ensure good governance through performance and financial reporting, and risk management were established, including our Audit & Risk Committee and Investment Committee, and a comprehensive Board member induction process was carried out
- Enhanced openness and transparency including effective public reporting and a comprehensive communications plan to reach the wide range of individuals and organisations impacted by our work. The Board travelled to Argyll & Bute, Dumfries and Shetland to meet with stakeholders and tenants
- Achieved Cyber Essentials certification which confirms that we have the infrastructure and software applications in place for the most common internet-based threats to cyber security
- Prepared for General Data Protection Regulation which came into force in May 2018

**Business Plan action no: 1, 2, 5, 6, 8**

**Corporate Plan KPIs: 3**

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**“ This initiative marks a step-change in how the assets are managed, signalling our drive to involve communities much more**

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**Took a leading role in trialling the internationally recognised Natural Capital Protocol across the entire 23,000 hectare Glenlivet Estate, an upland tenant farm, and a lowland arable business on the Fochabers Estate. The final report from this trial will inform how farmers can potentially use a natural capital approach to inform what they do** ”

## 5. Excellence in health & safety

- Embedded our Health & Safety processes and policies, with a particular focus on the rural and coastal estates as well as our offices in Edinburgh and Glenlivet (more in Section 2.3.2)
- Our first annual staff survey showed this focus has paid off with 97% staff agreeing with the statement “Crown Estate Scotland is committed to promoting Health & Safety in the workplace” and 94% agreeing that “I feel physically safe in my working environment”
- Further employee engagement planned for 2018-19 will aim to maintain these strong results

**Business Plan action no: 12**

**Corporate Plan KPIs: 17**

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## 6. Rural

- Invested £2.2m capital in the rural estate, including new buildings infrastructure, development and lease restructuring. This included:
  - A new large general purpose building on a Glenlivet agricultural unit
  - A range of improvements at other properties to improve water supplies, prevent damp, carry out necessary electrical upgrades and upgrade roofs
  - £50,000 contribution to Tomintoul & Glenlivet Landscape Partnership works
  - Surrender & waygo payments to release units for restructuring opportunities including re-letting or sale
  - Major drainage, tree-planting and hedging at Whitehill to complete the programme of restoration of former opencast coal land for productive agriculture
  - An ongoing programme of electrical and asbestos related works was funded covering residential units and farmhouses
- Took a leading role in trialling the internationally recognised Natural Capital Protocol across the entire 23,000 hectare Glenlivet Estate, an upland tenant farm, and a lowland arable business on the Fochabers Estate. The final report from this trial will inform how farmers can potentially use a natural capital approach to inform what they do. We are also exploring how we can use it to inform management of Scottish Crown Estate land
- Worked closely with the Tenant Farming Commissioner on promoting and implementing initiatives such as the amnesty on tenants’ improvements
- Improved how we communicate with agricultural tenants based on the findings of independent research, and continued our ongoing engagement with tenants through site visits and liaison with Scottish Tenant Farmers’ Association and the NFU Scotland (including their Tenants’ Working Group) as well as other channels



- Continued our support for our river salmon fishing angling tenants on category 3 rivers by granting a 25% rent reduction for the 2018 season to help clubs invest in activities that support habitat management and / or recruit members. This affects 34 out of our 140 fishing tenancies spanning 17 different rivers in Scotland
- Worked with telecom operators and agricultural tenants on a challenging timetable to agree siting of masts on farms at our Glenlivet Estate to facilitate completion of emergency service network

**Business Plan action no: 15, 16, 17, 19, 21**

**Corporate Plan KPIs: 1, 18, 36, 37, 40, 42, 43, 46, 50, 51**

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## 7. Coastal

- Sought mooring tenants' views on the mooring licensing system, leading to a number of actions to improve communication and seek ways in which to streamline the application process, address the issue of unlicensed moorings and provide a better service to the boating community
- Delivered strong results from the coastal tenant satisfaction survey with our managing agents Bidwells rated 6.9 for service and Crown Estate Scotland rated 7.1
- Funding for a new website for the West Highland Anchorages and Moorings (WHAM) Association, the body that represents over 60 marine leisure organisations. This will launch in 2018-19 and we are pleased to have been able to support this as a key strand of the ongoing development of WHAM
- A number of seabed transactions with commercial ports and harbours across Scotland, enabling expansion of existing facilities and the development of new business opportunities. This includes Aberdeen Harbour Board's Nigg Bay project, the redevelopment of Peterhead Harbour, expansion projects at Lerwick and the revitalising of the former Kishorn Yard by Kishorn Port Limited

**Business Plan action no: 3, 15, 18**

**Corporate Plan KPIs: 56, 58**

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**Sought mooring tenants' views on the mooring licensing system, leading to a number of actions to improve communication and seek ways in which to streamline the application process, address the issue of unlicensed moorings and provide a better service to the boating community**

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**Developed proposals for new offshore wind leasing for Scotland, informed by wide-ranging early engagement with industry, government and NGOs** ”

**Continued to explore a means for successful wild and farmed fish interactions management** ”

## 8. Energy & Infrastructure

- Developed proposals for new offshore wind leasing for Scotland, informed by wide-ranging early engagement with industry, government and NGOs. These were launched for consultation in May 2018 and reflect the results of a review, conducted with input from HIE, Scottish Enterprise and others, into how we can design leasing to optimise benefits for local communities and other stakeholders<sup>14</sup>
- Carried out initial studies into the potential macro-economic benefits to the UK if the floating offshore wind industry is provided with support to grow, and work to identify opportunities for energy storage that will then inform development of Crown Estate Scotland policy on local systems
- Continued to support development of the CCS (Carbon Capture & Storage) sector in Scotland, through industry and government initiatives and preparations to grant an option for lease of the seabed for the Acorn project off the north-east coast
- Managed our capital investment in the MeyGen tidal energy project as it started generating electricity, supplying homes and businesses in Scotland, marking a significant milestone for the project and for the tidal energy sector. Our tenants Nova Innovation (with a site at Bluemull Sound, Shetland) and ScotRenewables (while based at EMEC) achieved ground-breaking project and technological progress. We are pleased to have played a part in supporting and enabling these achievements

**Business Plan action no: 26, 28, 29**

**Corporate Plan KPIs: 19, 20, 21, 23, 25, 26, 28**

## 9. Aquaculture

- Continued to explore a means for successful wild and farmed fish interactions management with a commitment of £25,000 each year for three years (2017-18 – 2019-20) for a wild fish lice monitoring protocol pilot led by Fisheries Management Scotland
- Partial closed containment feasibility investigation for finfish now operating and we are participating on steering group. Closed containment has the potential to shorten open sea periods, addressing key operator risks by reducing exposure to pathogens, improving overall environmental sustainability and strengthening the sector's social license to operate
- Hosted the Seagas Forum in May 2017, bringing together academia and industry to explore progress in biomethane R&D
- Supported Norfab's mechanised handling design project for harvested seaweed which aims to identify production line economics to inform how cultivation logistics can be commercialised and scaled-up

<sup>14</sup> Marine Scotland is conducting a strategic planning exercise which will result in a Sectoral Plan for Offshore Wind. Crown Estate Scotland will lease seabed in accordance with that Plan.

- Achieved strong results in the independent tenant satisfaction survey with overall performance rated at 8.2 out of 10 by shellfish tenants and 7.2 by finfish tenants. Assessing how helpful our five-yearly rent review are for giving tenants certainty, shellfish tenants rated the reviews as helpful, scoring 7.3 (on a scale of 1 (a little helpful) to 10 (very helpful)) and finfish tenants rated them 6.6<sup>15</sup>

**Business Plan action no: 30, 31, 32**

**Corporate Plan KPIs: 30, 33, 34, 32**

## 10. Urban (39-41 George St, Edinburgh)

- Put in place energy efficiency measures in common areas to reduce costs and improve sustainability
- Developed plans to install cycle storage (and remove car park spaces) in 2018-19, further enhancing the attractiveness of the retail and office units in the property
- While we continue to have occupancy in most units, one space has remained vacant throughout 2017-18 despite interest from several potential tenants. The prime location of this property and the ongoing improvements we are making mean we are confident that we will secure a tenant for this particular space in 2018-19

**Put in place energy efficiency measures in common areas to reduce costs and improve sustainability**

**Business Plan action no: n/a**

**Corporate Plan KPIs: 59**

Some 2017-18 business plan targets were not fully met. We list these here along with some explanatory notes.

**Table 3: 2017-18 business plan targets that were not met (red – target missed; amber – target partially met)**

Business plan action number	Action	Measure	Status	Notes
7	Ensure that staff are fully engaged; retain and enhance expertise	Unplanned turnover rate no more than 10%	Red	Unplanned turnover totalled 13% (four members of staff); measures being implemented in 2018-19 to manage turnover during an ongoing period of change (see Section 2.3.1)
13	Long-term investment strategy devised	Investment strategy approved by Board; started to implement	Amber	Draft currently in place pending Strategic Environmental Assessment (expected December 2018)
14	Ensure that appropriate processes are in place to capture data and financials, apportioned by local authority, to be able to provide information to Scottish Government as required	Provision of financial information to enable Scottish Government to apportion net revenue by local authority	Amber	Processes in place; timescale for providing information changed (in consultation with Scottish Government); on track for completion late 2018-19
23	Optimise net rentals from property in George St, Edinburgh	Remaining vacant office let at market value	Red	Work ongoing to secure tenant and to minimise vacancies in other units following lease expiry

<sup>15</sup> Please note, that due to the small number of responses received for finfish and shellfish, these results should be viewed as indicative only. A summary of the tenant research is at [www.crownestatescotland.com/maps-and-publications/download/167](http://www.crownestatescotland.com/maps-and-publications/download/167)





## Case study 4

### Helping sustainably harness the power of the seas

Scotland is better placed than most countries to unplug the huge potential of offshore renewables. As manager of leasing Scotland's seabed, we want to do all we can realise this potential.

Key to this is building up a knowledge base about the marine environment to inform innovation and sector development and ensure we harness the power of the Scotland seas in a sustainable way.

In 2017-18, Crown Estate Scotland part-funded the Offshore Renewables Joint Industry Programme (ORJIP), which carried out the world's most comprehensive investigation into seabird behaviour and collision risk around offshore wind farms.

After two years of fieldwork, analysis revealed that collision risk of seabirds was less than half of what would be expected based on current understanding. Seabirds were observed to change their flight path to avoid the turbines.

John Robertson, Energy & Infrastructure Senior Manager at Crown Estate Scotland, said, "This is an important step forward

in understanding the potential impacts of offshore wind farms on the marine environment. Scotland's seas hold great potential for clean energy – this study will help ensure we realise that potential based on scientific research and long-term sustainability."

Piers Guy, UK Country Manager, Vattenfall said: "This pioneering study, hosted at Vattenfall's Thanet Offshore Wind Farm, is a significant step forward in our understanding of the way in which seabirds avoid offshore wind turbines, and comes at a crucial time as the next generation of wind turbines are designed and developed."

The collaborative study was commissioned by Crown Estate Scotland, offshore wind developers, The Crown Estate and Marine Scotland, and was managed by the Carbon Trust.



2

**Performance Analysis**



Our corporate plan details a range of KPIs and targets for the three years to March 2020 covering our five strategic objectives.

These three-year targets are sub-divided and reflected in each annual business plan, which in turn is cascaded down into individuals' performance objectives. We are developing a comprehensive assurance framework for use 2018-19 onwards.

Progress is tracked throughout each financial year through quarterly reports to the Board, monthly senior leadership and team meetings as well as quarterly individual performance reviews.

Below we illustrate progress to date on some of the key KPIs and targets.

**Table 4: Key KPIs and targets 2017-20**

Strategic objective	KPI	March 2020 target	How performance is tracked	Progress as at 31 March 2018
<b>1. Contribute to Scotland's economic, social and environmental well-being</b>	Number of pilot projects started	Three pilot projects started	Updates to Board on delivery of published <a href="#">scheme and timetable</a>	Pilots scheme developed and consulted on
<b>2. Grow the revenue and enhance the capital value of the estate</b>	Revenue generated (2017-18 baseline) Total capital property value	Revenue increase £10m working capital fund established (target set out in draft Investment Strategy)	Financial performance reporting framework including quarterly reporting to Board Weekly transactions pipeline review	£16.4m total turnover (against budget of £14.7m) £6.9m capital fund (before transfers from revenue) established £324.6m total property value
<b>3. Develop local-decision-making success, with a particular focus on communities and coastal local authorities</b>	Tenant satisfaction levels Key partners' satisfaction levels including local authorities	Tenant satisfaction levels above 75% and key coastal local authorities' / partners' satisfaction levels above 70%	Independent tenant and stakeholder surveys	Tenants surveyed 2017-18 indicated satisfaction above 70%  Stakeholders surveyed 2017-18 rated Crown Estate Scotland 7.2 (out of 10) on overall performance
<b>4. Build confidence and trust in the organisation</b>	Tenant satisfaction levels Key partners' satisfaction levels including local authorities	Tenant satisfaction levels above 75% and key coastal local authorities' / partners' satisfaction levels above 70%	Independent tenant and stakeholder surveys	Tenants surveyed 2017-18 indicated satisfaction above 70%  Stakeholders surveyed 2017-18 rated Crown Estate Scotland 7.3 (out of 10) on transparency
<b>5. Develop and deploy our people's expertise to deliver success</b>	Staff engagement levels Staff retention levels Education and knowledge transfer	Min 75% good-high engagement Max 10% unplanned turnover Evidence of sharing of knowledge in key sectors	Annual staff survey Quarterly reporting on staff turnover Tenant and stakeholder surveys	13% turnover in 2017-18 – action to address this is covered in Section 3.1

## 2.1 Uncertainties that may impact performance

There are a number of risks and uncertainties that could impact on both the reputation and performance of Crown Estate Scotland. It is important that Crown Estate Scotland has in place appropriate measures to mitigate these risks and uncertainties.

The approach to risk management that has been adopted is set out in Section 2.1.1 and reflects the guidance published by the Scottish Government.

Crown Estate Scotland is an asset-based business with a capital-intensive rural estate and a growing offshore renewables asset-base. The agricultural and aquaculture sectors are facing considerable uncertainty related to Brexit, and much of the future success of the offshore renewables sector relies on UK government policy and wider consenting and spatial factors.

Our mandate focusses on delivering wider public benefits as well as our contribution to public finances. To optimise what the assets deliver for Scotland, we must better understand the impacts of different approaches to management and investment. We are developing a methodology to measure the wider benefits the different types of assets deliver for Scotland. This will help inform decision-making in a consistent and evidence-based way, considering economic, social and environmental impacts.

We also want to work with tenants to formulate a rural estate strategy and to gauge views on how we can continue to provide excellent tenant service while taking a responsible and measured approach to managing the assets, including meeting our capital obligations across the 200+ tenancy agreements. In 2018-19 we will carry out a conditions survey of the occupied commercial, residential and agricultural units on the four rural estates to ascertain the scale of works required by Crown Estate Scotland as landlord and by tenants, in line with their tenancy agreements. This work will also be important in informing longer-term investment plans - but may well raise significant challenges for greater capital generation and deployment.

Over the last year we have worked hard to build capital reserves from a nil starting position. Capital raising will be an ongoing challenge to ensure we can meet our obligations to invest to grow the capital value of the estate, remain a good landlord and be able to fund development work for both medium-term and long-term sector development and revenue benefit. After only a year of operation we have secured a reasonable capital fund as at March 31 2018, and our draft investment strategy lays out our approach to raising capital in 2018-19 and beyond.

### 2.1.1 Overview of risk management policy

Crown Estate Scotland's risk management strategy, policy and processes are framed in accordance with the Scottish Government's Scottish Public Finance Manual.<sup>16</sup>

Risk management is an important part of meeting the requirements of effective corporate governance. It helps protect the safety of our staff, our reputation and foster confidence in the robustness of our corporate governance arrangements and internal controls.

Techniques and procedures within our policy help to identify and evaluate risks within the business, as well as enabling informed decisions about how to manage risk and take appropriate risks in a controlled and measured manner.

We have embedded risk management across the organisation by:

- Encouraging and enabling staff to understand the risks facing Crown Estate Scotland, and our approach to – and their role in – managing them
- Delegating responsibility for risk ownership and management as appropriate
- Ensuring that designated individuals receive the necessary training, ongoing support and advice
- Integrating risk management within planning at strategic and operational levels
- Developing a process with the aim of ensuring a clear and consistent understanding of our risk appetite

<sup>16</sup> More on risk management and the work of the Audit & Risk Committee is in Section 3.3.6.

Crown Estate Scotland's risk management process can be broken down into five steps: Risk Identification; Risk Evaluation; Assessment of how risks are managed; Identification of further actions; Risk Reporting.

Crown Estate Scotland manages several different types of risk. Risk associated with specific parts of the business is covered in Table 2 and there is further information on our approach in Section 3.3.5. An extract from the strategic risk register is shown below.

**Table 5: Extract from strategic risk register**

Category of risk	Description	Impact	Mitigation
<b>Health &amp; Safety</b>	Serious incident involving tenant, staff member, contractor or member of the public	Loss of life Permanent disablement Major pollution incident	Develop, implement and monitor comprehensive H&S policies, processes, training and reporting Ensure liabilities for estate activities are transferred where possible Robust audit procedures Monitor changes in legislation and case law and action as appropriate
<b>Operational</b>	Failure of tenants to decommission marine infrastructure	Liabilities increase; loss of value in marine assets	Ensure all agreements transfer responsibility for decommissioning to tenant Carry out appropriate covenant checks for new agreements Review and comment on decommissioning plans from Marine Scotland for renewables infrastructure If possible, take legal action to recover costs incurred in decommissioning in the event of a tenant default Enter into Memorandum of Understanding (MoU) with Scottish Government for decommissioning of renewables infrastructure Enter into MoU with UK Government (BEIS) for decommissioning of O&G pipelines within 12 nautical miles Enter into MoU with UK Government for liabilities associated with CO2 injection and storage infrastructure
<b>Staff</b>	High turnover	Negative impact on team and overall performance	Develop and implement a People Strategy Annual staff survey with subsequent action plans implemented
<b>Systems / IT</b>	Failure of core IT systems due to cyber attack	Reputational damage and loss of key business information; recovery costs	Maintain Cyber Essentials certification (confirms that we have the infrastructure and software applications in place for the most common internet-based threats to cyber security) Member of the Cybersecurity Information Sharing Partnership (CISP) – provides notification of cyber related matters and early warning of risks to security IT support partners provide staff training



## 2.2 Overview of financial performance

With opening balances of nil in both revenue and capital bank accounts on 1 April 2017, the first year of operation has been characterised by careful financial and operational management to meet targets and manage cashflow.

Returning £9m to Scottish Government (over £3m ahead of budget) and having a capital reserve of £7m before permitted transfers from revenue demonstrates the success of this approach, the result of a 'one team' effort by staff, managing agents and other partners and suppliers.

Capital remains the property of the Monarch. We therefore maintain a strict separation between revenue and capital accounts with transfers happening only under certain circumstances as defined within legislation.<sup>17</sup>

### Cross-subsidy

We are not permitted commercial borrowing, and must therefore raise capital from property transactions to meet our statutory obligations in undertaking works (e.g. providing and upgrading fixed equipment under our 200+ agricultural tenancies) and creating new shared value (e.g. by supporting development of the low-carbon economy). This reinvestment generates income and grows value in the future, supporting Scottish economic growth.

These capital requirements, and the desire to grow a capital reserve, have driven our activity in 2017-18 to raise funds.

The ability to cross-subsidise – funding growth / investments in one part of the business by generating income in others – is critical to the financial sustainability.

Revenue and value are determined by the activity that takes place on the assets. Valuation takes into account income streams and the degrees of certainty that this income will be forthcoming, assessed in relation to the type and duration of leases. Also reflected are wider market and macro-economic trends as well as risk associated with specific tenant activities.

### Market conditions

The long-term investment in Marine (Energy & Infrastructure), started by our predecessor The Crown Estate and continued by us, is increasingly generating both capital and revenue returns. We expect this trend to continue in coming years as the energy industry continues to decarbonise (enabled by both government, investor and consumer demand) and more offshore renewable energy projects progress through planning and consenting and into financial close, construction and commissioning.

This year saw higher than expected production of farmed finfish, reflected in above- gross revenue performance. 2018-19 will likely see finfish income drop, which longer-term is dependent on global trends and trading tariffs.

Retail and office property in prime locations continues to hold value, as does rural property. Timber prices and demand for forestry land underpin continuing healthy capital and revenue growth. Fluctuations in commodities pricing, uncertainty around Brexit and rising food distribution costs characterised 2017-18. Our team will continue working with agricultural tenants to support them in business planning and diversification.

<sup>17</sup> The legislation which created Crown Estate Scotland (Interim Management) (see [www.legislation.gov.uk/sdsi/2017/978011033388](http://www.legislation.gov.uk/sdsi/2017/978011033388), Article 20) enables the business to make transfers from the revenue account to the capital account. The amount that can be transferred is calculated as nine per cent of the previous year's turnover. In addition, the business can capitalise some costs, for example salaries. The legislation currently also permits the business to make loans from revenue received to fund short-term capital cashflow requirements. These are to be repaid as soon as practical and are not to be outstanding over a financial year end without the consent of Scottish Government.

In Section 2.2.1 we provide a summary of revenue income generated by activity on marine, rural, coastal and urban assets, as well as overall expenditure, and the property valuation.

In Table 7 we then detail key factors related to gross revenue and explanation of changes in valuation. While comparison with

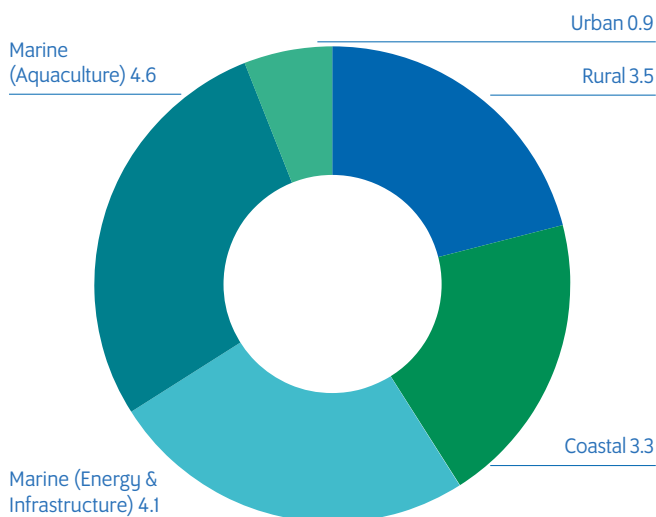
the valuation on transfer of the portfolio (which totalled £275.7m) is valid, there is no existing separate baseline for revenue comparison. We have therefore compared against 2017-18 budgeted targets for this year's reporting purposes.

## 2.2.1 2017-18 revenue and valuation

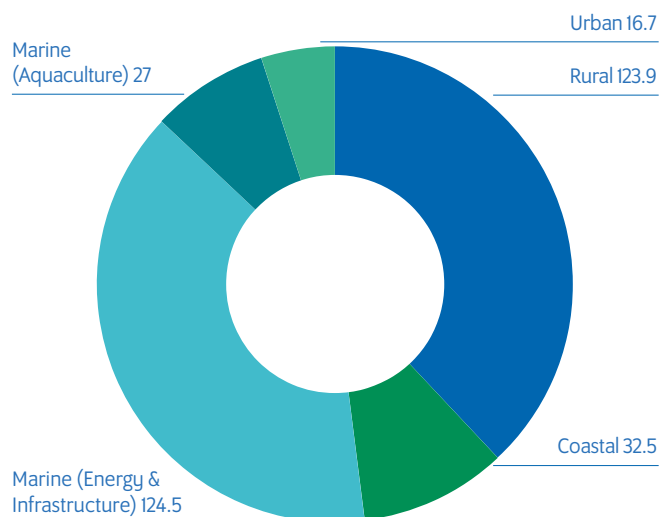
**Table 6: Summary of revenue account (breakdown by asset available in Table 7)**

	£m
Gross revenue	16.4
Direct costs <sup>18</sup>	(3.3)
Indirect costs <sup>19</sup>	(2.5)
Transfers to capital account	(1.4)
Depreciation of tangible fixed assets	(0.2)
Net revenue	9.0

### Gross revenue by operating division £m



### Property valuation by asset £m



<sup>18</sup> Direct costs include maintenance, repairs, managing agents and other costs related to the land and property for which we are responsible.

<sup>19</sup> Indirect costs relate to staff (most staff costs are funded from the revenue account, some come for the capital account), operating our two offices, a range of systems, insurance, governance and some professional support.

**Table 7: 2017-18 gross revenue and property valuation**

	Gross revenue (budget) £m	Notes	31 March 2018 valuation £m (% change on transfer valuation)	1 April 2017 valuation £m	Notes on change since 1 April 2017
<b>Rural (agriculture, forestry, minerals and naturally-occurring gold &amp; silver)</b>	3.5 (3.4)	Covering agricultural, forestry, commercial, residential and minerals	123.9 (+0.1%)	122.8	Sales of residential units and one agricultural unit had little impact on overall value, helped by improved rents in other properties  Forestry has increased value, reflecting market trends and the sector's ability to attract investment  Minerals value fell slightly following expiry of some leases
<b>Coastal</b>	3.3 (3.3)	Revenue generated by the activities managed as part of our Coastal portfolio (includes ports & harbours, moorings, pontoons, dredging and outfalls)	32.5 (+10.5%)	29.4	The increase in capital value is due to the completion of new agreements in 2017-18 and increased confidence in the marina market  The portfolio is characterised by a high volume of low value dealings, with a small number of high value dealings in the ports and oil & gas sectors
<b>Marine (Energy &amp; Infrastructure)</b>	4.1 (3.8)	Energy revenue is linked to energy output. Some projects started operating slightly earlier than expected while other projects generated slightly more energy than anticipated. Infrastructure revenue arises from cable & pipeline activities on the seabed	124.5 (+46.8%)	84.8	Increase in value driven by Beatrice offshore wind farm entering its construction phase and Moray East project securing a Contract for Difference  It is also partly due to the resolution of the legal challenges to the planning consents of the Forth & Tay offshore wind projects. With the status of the planning consents now clear, those agreements have increased in value
<b>Marine (Aquaculture)</b>	4.6 (3.3)	Reflects the implementation of the recent five-yearly rent review for finfish (which resulted in a 22% increase of fees for farmed salmon from 22.5p/kg to 27.5p/kg gutted weight) and higher than anticipated salmon production figures. 2018-19 may therefore see finfish income drop  Aquaculture income is impacted by fish health management year-to-year, market demands and global trends - and potentially trading tariffs in the longer-term	27.0 (+13.9%)	23.7	Value increase largely reflects the increase in finfish revenue as a result of the five-yearly rent review
<b>Urban</b>	0.9 (0.9)	Our urban property consists of retail and office spaces at 39-40 George St, Edinburgh. It provides reliable income stream with relatively low management costs	16.7 (+11.3%)	15.0	Increase reflects market sentiment, demand, and the calibre of the property and location
<b>Total</b>	<b>16.4 (14.7)</b>		<b>324.6 (+17.7%)</b>		



## 2.2.2 Best Value and value for money

The Board has corporate responsibility for promoting the efficient and effective use of resources and staff in accordance with the principles of Best Value.

The Chief Executive has a duty to secure Best Value through continuous improvement in performance and having regard to economy, efficiency and effectiveness (value for money), as well as equal opportunities. Further detail is in our Framework Document.

## 2.2.3 Forward-look

Systems and processes are in place – and will be kept under review – to ensure we function efficiently and meet compliance and statutory requirements, including GDPR which came into force in May 2018.

While we are incurring additional costs as a result of fulfilling the requirements placed on public sector bodies in relation to governance, compliance and reporting, we are also reviewing expenditure to identify potential savings and have established robust controls to ensure effective budget and cash management.

Our Audit & Risk Committee supports the Board and the Accountable Officer (Chief Executive) in ensuring effective performance, risk management and financial reporting. In our second and third years of operation (2018-19 and 2019-20) we will review our internal governance framework and assess Board effectiveness, in line with best practice.

A Governance Statement setting out our internal control structure and how we manage resources is in Section 3.3.





## Case study 5

### Supporting nationally important infrastructure

Construction of Aberdeen Harbour Board's £350 million development of additional facilities in Nigg Bay, to the south of the existing harbour, is now well progressed, entering its second year.

The development, due to be completed in 2020, will include 1,400m of new quay, with a water depth of up to 10.5m. It will also create an additional 125,000sqm of lay-down area, making it the largest port in Scotland in terms of berthage.

It is expected that the expansion will support the creation of 2,300 jobs by 2026, as well as providing new and existing customers increased opportunity in decommissioning activity, cruise tourism and the renewables market in Scotland.

Andrew Wells, Head of Property at Crown Estate Scotland, worked closely with the Harbour Board to provide the seabed lease and dredging agreements.

He said: "It is fantastic to see the progress made at Nigg Bay, with the expansion set to drive economic growth and job creation in Aberdeen and its surrounding communities.

"Aberdeen Harbour is an example of how our team works closely with local authorities, businesses, coastal communities and other partners to give occupation rights to Crown foreshore and seabed for projects providing marine infrastructure around Scotland."

Michelle Handforth, Chief Executive of Aberdeen Harbour Board, said "Construction of South Harbour is progressing well, and the project is very much on schedule. The project is of significant strategic importance, not just to Aberdeen but to the whole of Scotland and internationally. The expansion allows commercial diversification and future-proofs the harbour, enabling us to support large scale marine operations from a range of industries, including decommissioning and cruise."



## 2.3 Non-financial information

In this section we give an overview of non-financial information that is key to our success as a public body, as an employer and as a responsible business.

### 2.3.1 Our people

On 31 March 2018, Crown Estate Scotland had 36 members of staff. Our business model is based on this small core team with support from managing agents and other professional service providers.

Independent research conducted in 2017-18 indicates that our staff team's professionalism, expertise and trustworthiness are recognised and valued by our stakeholders (see summary of research results in Section 1.5). We take great pride in this feedback and thank stakeholders for taking part in this research.

Our first annual staff survey, conducted by an independent agency in March 2018, asked staff to agree or disagree on a scale of 1 to 10 (with 1 strongly disagree and 10 strongly agree). Results showed:

- 66% of staff agree that they have overall satisfaction with their job (with 17% dissatisfied with their job)
- 72% of staff agree that they have overall satisfaction with Crown Estate Scotland as an employer (with 17% dissatisfied)

Staff feel that Crown Estate Scotland is committed to promoting Health & Safety in the workplace (97% agree) and feel physically safe at work (94% agree). In addition, there are high levels of awareness of our vision and values and of our set of new corporate policies relating to procurement, complaints handling, Freedom of Information and Health & Safety.

These results, coming at the end of our first year of operation and a two-year programme of intense change, reflects the commitment and professionalism of our staff.

The staff survey told us that areas for improvement include providing more opportunities for staff to advance their careers and furthering staff understanding of decision-making processes within the wider governance framework. The need to help staff manage stress was also highlighted and will be addressed as we work towards [Healthy Working Lives](#) accreditation.

In recognition of these results, and our aim to manage staff turnover, in 2018-19 we have committed to develop a People Strategy (to include enhancing staff expertise to meet evolving business needs, and development and roll-out of staff code and handbook).

We will also review pay and conditions, working with Crown Estate Scotland's recognised trade union, PCS, to ensure we have a transparent and fair pay structure that is more closely aligned with Scottish Government Pay Policy. While staff survey results indicate that this exercise will be welcomed, it does have the potential to impact staff retention and morale - there is a need to manage it carefully.

We will ensure that we retain our Living Wage accreditation.

Our commitment to staff equality and diversity is detailed on p50. Crown Estate Scotland's Chair is committed to enhancing the gender diversity of the Board, appointments to which are made by Scottish Ministers.

### 2.3.2 Health & Safety

Excellent Health & Safety management is fundamental to the success of the organisation. We seek to meet all relevant Health & Safety requirements, to continually improve our approach and management, and to embed a positive Health & Safety culture throughout the business.

The management of Health & Safety is regarded as a key material issue in relation to Crown Estate Scotland's business interests. This is reflected in the framework document, the revised policies and procedures and the importance placed on Health & Safety in staff objectives and operational business management.

Following the establishment of Crown Estate Scotland, a framework and system for the effective management of Health and Safety was put in place and approved by the Board.

The framework sets out the **PLAN, DO, CHECK, ACT** approach which has been implemented in the last 12 months. We also developed Health & Safety policies and established the central Health & Safety Committee which meets quarterly and includes trade union representation.

Training is ongoing for the workforce. Health & Safety has been incorporated as an objective in all staff performance scorecards and is a fixed item on all Board, senior management, staff and committee meeting agendas. The management systems put in place and the priority given to Health & Safety management ensures that there is an ongoing review of systems and operational requirements.

A process for the reporting of incidents and accidents has been put in place. Reporting of 'near misses' as well as incidents resulting in personal injury has been undertaken according to the process.

Our Health & Safety consultant has visited all four rural estates and managing agents have been undertaking works to address a range of rural property related requirements and inspections. The focus has been on works related to asbestos (following inspections undertaken prior to transfer) and on electrical works on farm buildings, farmhouses and residential properties to meet requisite standards.

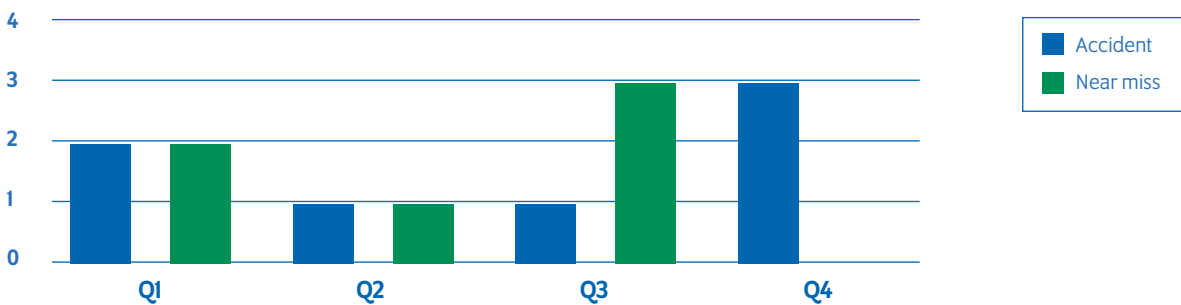
Chart 1 (below) shows that seven accidents and six near misses related to staff were recorded in 2017-18. Most of these occurred at our head office in Edinburgh and were relatively minor, with follow up action taken such as improved signage and instructions for staff operating equipment.

Two staff incidents related to striking a phone line with a digger bucket. Neither resulted in any injuries but there was inconvenience to those affected. Action to prevent this occurring again includes upgrading the detection equipment and providing further staff training.

There were no RIDDOR reportable staff accidents or incidents in the 12 months to 31 March 2018.

In 2018-19, a review of Health & Safety operations of Crown Estate Scotland and of the managing agents in relation to their responsibilities under the new policies will be undertaken by the Health & Safety consultant. From this, action points with a suggested timescale for action will be identified.

**Chart 1: Staff accidents & near misses in 2017-18**



### 2.3.3 Public Interest Reporting

As a public body, Crown Estate Scotland is committed to full compliance with:

- Freedom of Information (Scotland) Act 2002 (“FOISA”)
- Environmental Information (Scotland) Regulations 2004 (“EIRs”)
- Data Protection Act 1998.

Crown Estate Scotland also adopted the Scottish Public Sector Ombudsman’s model complaints handling procedure (CHP) in January 2018.

**Table 8: FOISA and EIRs**

	2017-18
Requests for information received	35
Requests for information responded to	35
Percentage of requests responded to within 20 working days	97%*
Average response time (working days)	9
Number of reviews carried out	2
Number of cases appealed to the Scottish Information Commissioner	1
Decisions issued by the Scottish Information Commissioner	1

\* 1 response delayed by 2 working days due to staff illness

There was one Subject Access Request and this was responded to within the required 40 calendar days.

### Appeals

We received two requests for a review of Crown Estate Scotland’s handling of their request. The reviews, which were at the request of the same party, upheld the original decisions.

In 2017-18, one appeal was made to the Commissioner to review a decision made by Crown Estate Scotland and was investigated. The Decision Notice ([051/2018](#)) was issued by the Commissioner on 9 April 2018 and found in favour of Crown Estate Scotland.

### Training

Training for staff in relation to FOISA and EIRs was delivered during 2017-18. Training is also offered as part of the induction process for new employees and refresher training is available on request.

### Complaints

In the period since the adoption of the Complaints Handling Procedure there have been no recorded complaints. We will offer further training to staff and work to raise internal awareness of the Procedure during 2018-19 in order to ensure that any complaints are responded to in accordance with the procedure and that we can improve the services we deliver.

## 2.3.4 Sustainability

Sustainability and good stewardship of the assets is key to our long-term success as a landlord, land manager and a responsible business.

We work with the Scottish Government, business partners and communities to encourage sustainable practices, and continue to invest in public access and education activities to enhance the public use and understanding of the natural environment.

This is demonstrated by the work we do with our tenants on ecosystem restoration, woodland management, habitat and species management and the educational work delivered through our ranger service on the Glenlivet Estate and other activities.

Crown Estate Scotland's assets are significant in supporting the delivery of Scottish Government objectives relating to the environment. Under the Wildlife and Natural Environment (Scotland) Act 2011, the 'Six Big Steps for Nature' set out in Scotland's Route Map to 2020 inform our work and are integrated into our business planning. Our [Biodiversity Statement](#) was published in February 2018 and we will provide a publicly available report on actions taken to meet our biodiversity duty in 2021.

Crown Estate Scotland is also supporting the 'Investment in Natural Capital' as set out in the 2020 Route Map and led the development of a trial project for land-based businesses in partnership with several other organisations. The trial applied the Natural Capital Protocol, co-developed by an international team of expert businesses and NGOs, to land-based businesses on two Moray estates run by Crown Estate Scotland as part of its work to put Scotland at the forefront of developing new ways of managing land and the environment.

We are working to develop processes and tools to measure and monitor social, economic and environmental impacts of our business decisions. An initial scoping exercise on this was carried out in 2017-18 and in 2018-19 we will undertake this substantial project, with the key deliverable being development of a methodology for evaluating the current and potential value of the assets to Scotland. The outputs of this work will be incorporated into the organisation's strategic and decision-making processes and used to monitor our ongoing contribution to public benefit delivery. We see this as a significant project not just for Crown Estate Scotland but for other asset managers in the public, private and third sectors.

## Environment Assessment (Scotland) Act 2005

As a public body subject to the Environment Assessment (Scotland) Act 2005, we gauged the likely effects of our 2017-20 Corporate Plan on the environment in accordance with the criteria in Schedule 2 of the Act, concluding that the Plan was exempt under schedule 7 of the Act. In 2018-19, we are conducting a Strategic Environmental Assessment for our draft Investment Strategy.

## Office operations

Our recycling and waste to landfill for 2017-18 is shown in Table 9. Measures in place to reduce the environmental impact of our direct operations include a Greener Office plan at our Edinburgh office (focussing on reducing landfill waste and minimising single use plastics) and replacing our pool car with a hybrid model, and biomass heating at Glenlivet. The Glenlivet office, which is also a visitor centre, has an electric vehicle charging point for public use.

**Table 9: 2017-18 weight of materials collected for recycling and landfill**

Office	Recycled (kg)	Landfill (kg)
Edinburgh	2,489	6,420
Glenlivet	174	90



**Simon Hodge**  
Chief Executive and Accountable Officer  
Crown Estate Scotland (Interim Management)

Date 22 August 2018



**3**

## **Governance**

This section explains the composition and organisation of Crown Estate Scotland's governance structures and how they support the achievement of our objectives.

## 3.1 Members' Report

Crown Estate Scotland is led by a Board comprising a Chair and up to eight other members, who are all appointed by Scottish Ministers. The current members are:

- Amanda Bryan (Chair)
- Dr Michael Foxley
- Andrew Macdonald
- Robert Mackenzie
- Richard Morris
- Hugh Raven
- Alister Steele MBE

Board members require to demonstrate appropriate levels of independence and objectivity. Members have, to the best of their

knowledge, declared any conflict of interest to the Board and have disclosed in a Register of Interests details of any directorships, appointments or significant interests which may conflict with their role on the Board of Crown Estate Scotland.

As an organisation, Crown Estate Scotland are committed to equality and diversity and the Board signed the Scottish Government's Partnership for Change pledge to commit to gender balance on the Board by 2020.

The role of the Board is set out in the Framework Document. The Board has set clearly defined delegations to its two committees, Audit & Risk Committee and Investment Committee, and to the Executive Team through a Scheme of Delegation.

A self-evaluation of the performance of the Board and of individual members will be undertaken in 2018-19.

## 3.2 Statement of Accounting Officer's Responsibilities

As Accountable Officer, I confirm that the annual report and accounts are fair, balanced and understandable. I take personal responsibility for the Annual Report and Accounts and for the judgements required to determine that it is fair, balanced and understandable.

I have taken all steps that I ought to have to ensure that I am aware of any relevant audit information and to establish that the auditors are also made aware of this information. As far as I am aware, there is no relevant audit information of which the auditors are unaware.

## 3.3 Governance Statement

The Board has a collective responsibility for maintaining a sound system of corporate governance and internal control that supports the achievement of Crown Estate Scotland's policies, aims and objectives whilst safeguarding public funds and assets. As Accountable Officer and Chief Executive Officer, I am personally responsible for the duties specifically assigned to me including:

- ensuring the propriety and regularity of Crown Estate Scotland's finances and that there are sound and effective arrangements for internal control and risk management
- ensuring that the resources of Crown Estate Scotland are used economically, efficiently and effectively and that appropriate arrangements are in place to secure Best Value for the organisation and to deliver Value for Money for the public sector as a whole
- ensuring compliance with relevant guidance issued by the Scottish Ministers, in particular the Scottish Public Finance Manual (SPFM)
- signing the annual accounts and associated governance statements
- obtaining written authority from the Board/Chair before taking any action which they consider would be inconsistent with the proper performance of the Accountable Officer functions

### 3.3.1 Governance Framework

Throughout the financial year, Crown Estate Scotland operated under an organisational structure with clearly defined lines of authority and accountability as set out in the Framework Document, the arrangements for board and terms of reference for Audit & Risk Committee to provide:

- assurance to the Scottish Government that Crown Estate Scotland has in place an effective governance system, accountable to Scottish Ministers.
- transparency of the roles and responsibilities of the Board, Audit & Risk Committee and the Executive Team to demonstrate a shared governance agenda across Crown Estate Scotland to contribute to the achievement of the Scottish Government's Economic Strategy and National Performance Framework.
- assurance that the Board is focused on ensuring effective strategic leadership.
- assurance that there is a fully empowered executive management team within Crown Estate Scotland, able to maximise productivity within a robust strategic framework.

As at the year end, the Board comprised seven non-executive members, including the Chair. It held six Board meetings during the financial year to review Crown Estate Scotland's operational and financial performance compared to plan, business strategy and risk management as well as high level review and scrutiny of health and safety issues.

Crown Estate Scotland maintains an ongoing dialogue at all levels within Scottish Government. The Board met with the Cabinet Secretary for Environment, Climate Change and Land Reform to discuss future plans. The Chair and Chief Executive meet with officials from the Scottish Government to discuss a range of business issues and members of the Executive Team meet Scottish Government officials on a regular basis.

Reporting to the Board is the Chief Executive who has responsibility for the management of Crown Estate Scotland and the Audit & Risk Committee which scrutinises certain areas of activity in greater depth and makes recommendations to the Board as detailed below.

### 3.3.2 Audit & Risk Committee

The Audit & Risk Committee is chaired by Robert Mackenzie, a non-executive member with a business advisory and accountancy background and extensive public sector advisory and risk experience. Andrew Macdonald and Richard Morris are the other non-executive members of the Committee.

The Committee review the financial report of Crown Estate Scotland and consider the results of the Auditor's opinion and review of the financial controls. It meets with management and with internal and external auditors to review the effectiveness of internal controls and business risk management.

The Committee adheres to the requirements of the Scottish Government's Audit Committee Handbook.

**Table 10: 2017-18 Board and Audit & Risk Committee attendance**

Name	Board		Audit & Risk Committee	
	Held	Attended	Held	Attended
Amanda Bryan	6	6	-	-
Dr Michael Foxley	6	5	-	-
Andrew Macdonald	6	5	3	3
Robert Mackenzie	6	6	3	3
Richard Morris	6	6	3	3
Hugh Raven	6	4	-	-
Alister Steele MBE	6	6	-	-

### 3.3.3 Board and Committee performance

Formal annual evaluation processes are in place for all Board members. The Chair's evaluation will be conducted by the Director of Marine Scotland.

Induction and training is provided for non-executive Board members and they are encouraged to participate in training offered by the Scottish Public Bodies Unit.

### 3.3.4 Compliance

Throughout the financial year and up to the date of approval of the Annual Report and Accounts, Crown Estate Scotland complied with the Framework Document for Crown Estate Scotland (Interim Management) issued in September 2017.

In addition, Crown Estate Scotland complied with the SPFM which sets out the relevant statutory, parliamentary and administrative requirements, unless amended by the Framework Document or by specific derogation or prior agreement with Scottish Government.

Crown Estate Scotland has in place a Code of Conduct for Board members, as approved by the Scottish Ministers. In compliance with the Ethical Standards in Public Life, etc. (Scotland) Act 2000, the Code of Conduct for Board members is published on our website, together with the Board members' Register of Interests.

### 3.3.5 Risk and internal control framework

As at 31 March 2018, a suite of risk management documents appropriate for the size of Crown Estate Scotland, covering operational management for all areas of the business were in place and remain so up to the date of approval of the Annual Report and Accounts.

There is strong commitment to continuous improvement to address document development, revision, compliance monitoring and internal audit methods and requirements going forward.

### 3.3.6 Approach to risk management

The SPFM requires all public bodies to maintain a risk management system which complies with its guidelines. Crown Estate Scotland has a risk management strategy, policy and processes framed in accordance with the Scottish Government's Scottish Public Finance Manual.

The system of internal control that has been adopted is designed to manage rather than eliminate the risk of failure to achieve Crown Estate Scotland's aims and objectives. It can therefore only provide reasonable and not absolute assurance of complete effectiveness.

The risk management system includes processes for the identification, evaluation and mitigation of risk. Review and reporting of risk is undertaken at a strategic, operational and project level. Each identified risk has a designated owner and actions are taken to manage the risk accordingly.



As new or changed risks emerge they are identified, evaluated, reviewed for alignment with the business plan and escalated if appropriate. All strategic level risks are actively managed, reviewed and updated by the Executive Team and reported to the Audit & Risk Committee on a quarterly basis and to the Board on at least an annual basis or as deemed appropriate.

### **3.3.7 Internal Audit**

With effect from 1 April 2018 Crown Estate Scotland has employed the services of independent auditors, Scott-Moncrieff, to report on the adequacy and effectiveness of Crown Estate Scotland's system of internal control together with recommendations for improvement.

The work of the internal auditors will be informed by an analysis of the risk to which Crown Estate Scotland is exposed. An Internal Audit Plan for a 3-year period, including a detailed plan for the audits prioritised to be undertaken in 2018/19, has been agreed with input from Audit & Risk Committee and the Executive Team.

### **3.3.8 External Audit**

The Auditor General for Scotland is responsible to the Scottish Parliament for securing the audit of the financial statements of Crown Estate Scotland. Grant Thornton UK LLP was appointed by the Auditor General for Scotland as the external auditors for Crown Estate Scotland for the year ended 31 March 2018.

### **3.3.9 Data losses**

There were no reported incidents of unauthorised exposure or loss of data during the financial year.

### **3.3.10 Public Services Reform (Scotland) Act 2010**

In accordance with the Public Services Reform (Scotland) Act 2010, Crown Estate Scotland will publish the information on expenditure and certain other matters as required on the Crown Estate Scotland website ([www.crownestatescotland.com](http://www.crownestatescotland.com)) following the publication of the Annual Report and Accounts 2017-18.

### **3.3.11 Conclusion**

As Accountable Officer I can confirm that I am fully content with the effectiveness of Crown Estate Scotland's existing arrangements to ensure appropriate standards of corporate governance and effective risk management.



**Simon Hodge**  
**Chief Executive and Accountable Officer**  
**Crown Estate Scotland (Interim Management)**

Date 22 August 2018

## 3.4 Remuneration and Staff Report

### Remuneration Policy

The remuneration policy governing our management and employees is set by the Board. The Scottish Ministers are responsible for approving Crown Estate Scotland's remuneration policy.

### Service Contracts

Our employees are crown servants. Crown Estate Scotland does not operate a remuneration committee however the terms and conditions of service applicable to the Chief Executive and Accountable Officer are subject to a separate approval exercise. The remuneration elements of this appointment are subject to the approval of the Scottish Government at the outset and annually, in line with the Scottish Government's Public Sector Pay Policy for Senior Appointments.

Board members are appointed by the Scottish Ministers in accordance with the Crown Estate Scotland (Interim Management) 2017 Order and in line with the Code of Practice for Ministerial Appointments to Public Bodies in Scotland, as issued by the Commissioner for Ethical Standards in Public Life in Scotland.

### Remuneration of the Board (*subject to audit opinion*)

	Fees £'000
Amanda Bryan (Non-executive member, Chair of the Board)	25-30
Dr Michael Foxley (Non-executive member)	0-5
Andrew MacDonald (Non-executive member)	0-5
Robert Mackenzie (Non-executive member, Chair of the Audit & Risk Committee)	0-5
Richard Morris (Non-executive member)	0-5
Hugh Raven (Non-executive member)	0-5
Alister Steele MBE (Non-executive member, Chair of the Investment Committee)	0-5

With the exception of Amanda Bryan, who was appointed from 1 April 2017, members were appointed from 1 May 2017. Board members did not receive any benefits in kind, bonuses or performance related pay.

### Remuneration and pension benefits of the Chief Executive

Ronnie Quinn, Crown Estate Scotland's first Chief Executive, left office with effect from 31 March 2018. Simon Hodge was appointed as Chief Executive and Accountable Officer effective from 11 April 2018, therefore no remuneration or pension benefits are disclosed for Mr Hodge for the 2017/18 financial year. In the interim period no Accountable Officer was appointed however there was a senior officer of Crown Estate Scotland who would act if required.

	Salary £'000	Pension Benefits* £'000	Bonus £'000	Total £'000
Ronnie Quinn (Chief Executive to 31 March 2018)	132	49	50	231

\*The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

Ronnie Quinn received a bonus of £49,860 in July 2017. This related to performance and contribution to the results of The Crown Estate for the financial year 2016-17 and was wholly funded by The Crown Estate.

	Accrued pension at pension age as at 31.03.18 £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31.03.18 £'000	CETV at 31.03.17 £'000	Real increase in CETV £'000
Ronnie Quinn (Chief Executive to 31 March 2018)	0-5	2.5-5	37	0	28

During the year to 31 March 2018 Crown Estate Scotland entered into an agreement with Ronnie Quinn, the terms of which provided that a payment in compensation for loss of office would be payable, subject to the fulfilment of certain conditions. Subsequent to the year-end these conditions were satisfied and a payment of £94,425 made.

## Salary

Salary includes gross salary, overtime, recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued costs to Crown Estate Scotland and thus recorded in these accounts.

## Bonuses

Most members of staff are contractually eligible for a discretionary bonus. Bonuses are based on performance levels attained and are awarded as part of Crown Estate Scotland's appraisal process. They relate to performance in the 12 months ended 31 March 2018 and a sum of £169,115 has been included as an accrual in the financial statements. Bonuses are payable following the end of the financial year.

## Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind provided during the period.

## Exit packages

Other than the payment to Ronnie Quinn for compensation for loss of office there were no exit packages agreed or paid during the financial year.

## Cash Equivalent Transfer Value (CETC)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The real increase in CETV reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

## Civil Service Pensions

Pension benefits are provided through Civil Service Pensions. Further details can be found at: [www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. As a result, we are unable to identify our share of underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2015. Further details can be found in the resource accounts of the Cabinet Office Civil Superannuation at: [www.civilservicepensionscheme.org.uk/about-us/resource-accounts](http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts)

During the 12 months ended 31 March 2018 employers' contributions of £339,175 were payable to PCSPS at one of four rates in the range 20% to 24.5% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions typically every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017/18 to be paid when the member retires, not the benefits paid during this period to existing pensioners.

## Fair Pay Disclosure *(subject to audit opinion)*

	2017/18
<b>Band of highest paid employee's total remuneration £'000</b>	180-185
<b>Remuneration range £'000</b>	18-182
<b>Median total remuneration of all employees £</b>	47,391
<b>Ratio</b>	3.85

Total remuneration includes salary and bonus payments. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

## Staff Report

As at 31 March 2018 there were 36 staff in post and seven non-executive members. The split by grade and gender is detailed below for the total number of persons employed, and by the average number of full time equivalent persons employed.

### Staff Numbers and Gender Composition

	Head Count		Permanent Staff FTE	
	Male	Female	Male	Female
<b>Non-Executive Members</b>	6	1	n/a	n/a
<b>Senior Management</b>	2	2	2	2
<b>Other Employees</b>	15	17	15	16

Amanda Bryan, Crown Estate Scotland's Chair, has expressed her commitment to improving the gender balance of the Board, as circumstances allow.

Permanent staff includes staff employed on fixed term contracts. Crown Estate Scotland occasionally engages agency staff in relation to short-term projects or vacancy cover. There were no agency staff in place at 31 March 2018.



### Staff Costs *(subject to audit opinion)*

	2017/18
	£m
Wages and salaries	1.9
Social security costs	0.2
Other pension costs	0.3
Total costs	2.4

### Sickness Absence Data

Our level of sickness absence for 2017/18 was 2.9 average working days lost (AWDL). Adjusting for incidences of long-term sickness the average number of days lost per employee was 1.4 days.

### Staff Policies

We are committed to eliminating discrimination and encouraging equality and diversity amongst our workforce.

We have developed a Crown Estate Scotland policy and procedure on ensuring equality and diversity in the workplace, which is widely available to staff. The purpose of this policy is to provide equality and fairness for all and not to discriminate because of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes colour, nationality and ethnic origins), religion or belief, sex or sexual orientation. We oppose all forms of unlawful and unfair discrimination.

Our equality and diversity policy states our commitment to:

- creating an environment in which individual differences and the contributions of all our employees are recognised and valued;
- encouraging a working environment that promotes equality and diversity;
- no form of intimidation, bullying or harassment being tolerated whether direct, indirect, associative or by perception;
- offering training, development and progression opportunities to all of our employees;
- recognising the varied contributions that a diverse workforce makes to the business;
- reviewing all employment practises and procedures to ensure fairness; and
- ensuring compliance with the Equalities Act 2010.



**Simon Hodge**  
**Chief Executive and Accountable Officer**  
**Crown Estate Scotland (Interim Management)**

Date 22 August 2018

## **3.5 Parliamentary Accountability and Audit Report**

### **Regularity of Expenditure**

In all material respects the expenditure and income in the accompanying financial statements were incurred or applied in accordance with the Crown Estate Act 1961 (as amended) and guidance issued by the Scottish Ministers.

### **Losses and Special Payments**

Other than trade debts provided for during the year, as reported in note 20 of these financial statements, Crown Estate Scotland did not incur designated losses or make any other special payments during the 2017/18 financial year.

### **Fees and Charges**

The Crown Estate Act 1961 provides that best consideration in money, or money's worth, must be achieved for any sale, lease or other form of disposal of Crown Estate assets or rights. In practice this means obtaining the optimum market value and terms for lease, sale and other transactions undertaken in the course of the management of the assets.

Where possible to do so, Crown Estate Scotland seeks to recover its transactional costs from the other transacting party.

### **Remote Contingent Liabilities**

Crown Estate Scotland did not have any contingent liabilities as at 31 March 2018.



**Simon Hodge**  
**Chief Executive and Accountable Officer**  
**Crown Estate Scotland (Interim Management)**

Date 22 August 2018

4

**Financial Statements**

## Independent Auditor's Report

This report is made solely to the parties to whom it is addressed in accordance with the Crown Estate Act 1961 (as amended) and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Report on the audit of the financial statements

#### Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Crown Estate Scotland (Interim Management) for the year ended 31 March 2018 under the Crown Estate Act 1961 (as amended). The financial statements comprise the Statements of Comprehensive Income, the Statement of Financial Position, the Cash Flow Statement, the Statement of changes in capital and reserves and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with section 2(5) of the Crown Estate Act 1961 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Crown Estate Act 1961 and directions made thereunder by the Scottish Ministers.

#### Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the body in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



## **Responsibilities of the Accountable Officer for the financial statements**

As explained more fully in the Statement of Accountable Officers' Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Other information in the annual report and accounts**

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

## **Report on regularity of expenditure and income**

### **Opinion on regularity**

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

### **Responsibilities for regularity**

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Crown Estate Act 1961 (as amended).

## **Report on other requirements**

### **Opinions on matters prescribed by the Auditor General for Scotland**

In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Crown Estate Act 1961(as amended) and directions made thereunder by the Scottish Ministers.

In our opinion, based on the work undertaken in the course of the audit

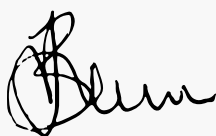
- the information given in the Annual Report and Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the directions made under the Crown Estate Act 1961(as amended) by the Scottish Ministers; and
- the information given in the Corporate Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.



**Joanne Brown**, for and on behalf of Grant Thornton LLP

Date 30 August 2018

110 Queen Street,  
Level 8  
Glasgow  
G1 3BX

## Statements of comprehensive income

For the year ended 31 March 2018

### Revenue account

	Note	£m
Revenue	6	16.4
Costs	7	(5.8)
<b>Operating profit</b>		<b>10.6</b>
Depreciation of tangible fixed assets	18	(0.2)
<b>Net operating profit before capital transfer agreements and Statutory transfers</b>		<b>10.4</b>
Recovery of capital expenditure under the Crown Estate Act 1961 and by capital transfer agreements	10	(1.3)
Statutory transfers	13	(0.1)
<b>Net consolidated revenue account profit</b>		<b>9.0</b>
<b>Statement of comprehensive income of the revenue account</b>		
Net revenue account profit - distributable to the Scottish Government Consolidated Fund		9.0
<b>Total comprehensive revenue account profit</b>		<b>9.0</b>

### Capital account

	Note	£m
Revenue	6	-
Charge from revenue for salary costs	9	(0.7)
Net revaluation gains on investment property (including profit/(loss) on disposal)	11	54.1
<b>Capital profit before capital transfer agreements and Statutory Transfers</b>		<b>53.4</b>
Recovery of capital expenditure under the Crown Estate Act 1961 and by capital transfer agreements	10	1.3
Statutory transfers	13	0.1
<b>Net capital account profit</b>		<b>54.8</b>
<b>Statement of comprehensive income of the capital account</b>		
Net capital account profit		54.8
<b>Items that will not be reclassified subsequently to the capital account:</b>		
Deficit on revaluation of owner occupied properties	11	-
<b>Total comprehensive capital account profit</b>		<b>54.8</b>

## Statement of financial position

As at 31 March 2018

	Note	£m
<b>Assets</b>		
<b>Non-current assets</b>		
Investment properties	15	324.6
Owner occupied property	16	-
Plant and equipment	18	0.6
Receivables due after one year	19	10.1
<b>Total non-current assets</b>		<b>335.3</b>
<b>Current Assets</b>		
Inventory		0.2
Trade and other receivables	20	7.8
Cash and cash equivalents	21	10.9
<b>Total current assets</b>		<b>18.9</b>
<b>Total assets</b>		<b>354.2</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Payables - amounts falling due within one year	22	10.0
<b>Total current liabilities</b>		<b>10.0</b>
<b>Payables - amounts falling due after more than one year</b>	<b>22</b>	<b>-</b>
<b>Total liabilities</b>		<b>10.0</b>
<b>Net assets</b>		<b>344.2</b>
<b>Capital and reserves</b>		
Capital reserve		344.2
Revaluation reserve		-
<b>Total capital and reserves</b>		<b>344.2</b>



**Simon Hodge**  
**Chief Executive and Accountable Officer**  
**Crown Estate Scotland (Interim Management)**

Date 22 August 2018



## Cash Flow Statement

### For the year ended 31 March 2018

	Note	£m
<b>Cash generated from operating activities</b>		
Net operating profit – consolidated revenue account		10.4
(Increase)/decrease in receivables		0.1
Increase/(decrease) in payables		0.3
(Increase)/decrease in provisions		(0.2)
Depreciation and impairment		0.2
<b>Net cash flow from operating activities</b>		<b>10.8</b>
<b>Cash flows from investing activities</b>		
Capital expenditure on investment properties		(2.9)
Proceeds from disposal of investment properties		5.0
Other capital receipts		2.5
<b>Net cash flow from investing activities</b>		<b>4.6</b>
<b>Cash flows from financing activities</b>		-
<b>Net cash flow from financing activities</b>		-
<b>Net increase in cash and cash equivalents before Scottish Government Consolidated Fund payment</b>		<b>15.4</b>
Scottish Government Consolidated Fund payment		(4.5)
<b>Increase in cash in the year after Scottish Government Consolidated Fund payment</b>		<b>10.9</b>
Cash and cash equivalents at start of the year		-
<b>Cash and cash equivalents at end of the year</b>	<b>21</b>	<b>10.9</b>

## Statement of changes in capital and reserves

For the year ended 31 March 2018

	Revenue Account	Capital Account	Total
	Revenue reserve available for distribution to the Scottish Government Consolidated Fund £m	Capital Reserve Revaluation Reserve £m	£m
<b>As at 1 April 2017</b>	-	-	-
Net profit for the financial year	9.0	54.8	63.8
Introduction of capital	-	289.4	289.4
Other comprehensive income	-	-	-
Revaluation deficit of owner occupied properties	-	-	-
<b>Total comprehensive profit for the year ended 31 March 2018</b>	<b>9.0</b>	<b>344.2</b>	<b>353.2</b>
Due to the Scottish Government Consolidated Fund - paid in year	(4.5)	-	(4.5)
Due to the Scottish Government Consolidated Fund - payable	(4.5)	-	(4.5)
<b>As at 31 March 2018</b>	<b>-</b>	<b>344.2</b>	<b>344.2</b>

# Notes to the financial statements

## 1. Basis of preparation

The Crown Estate Scotland Order (Interim Management) 2017 requires that the body's initial financial year reflect the period from the date on which the legislation came into effect, 16 February 2017, to 31 March 2018. The management of the Crown Estate in Scotland was transferred to Crown Estate Scotland on 1 April 2017 – prior to that date the entity did not trade nor acquire any assets or liabilities. References in the financial statements to results for the year ended 31 March 2018 therefore also equate to results for the period from 16 February 2017 to 31 March 2018.

These financial statements have been prepared on a going concern and an accruals basis under the historic cost convention, modified to include investment properties, owner occupied properties and other investments at fair value. They are prepared in accordance with section 2(5) of the Crown Estate Act 1961 (as amended by the Scotland Act 2016) and with directions made thereunder. The accounts will, so far as appropriate, comply with the SPFM and the accounts direction issued by the Scottish Ministers under the Crown Estate Act 1961 (as amended). The particular policies adopted by Crown Estate Scotland are described below. They have been applied consistently in dealing with items that are considered material to the accounts. The accounts are prepared using accounting policies, and, where necessary, estimation techniques, which are selected as the most appropriate for the purpose of giving a true and fair view in accordance with the principles, set out in *International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors*.

## Impact of the Crown Estate Act 1961 on the financial statements

Crown Estate Scotland is a body corporate regulated by Statute and domiciled in the United Kingdom. The provisions of the Crown Estate Act 1961, specify certain distinctions between capital and revenue reflecting the Report of the Committee on Crown Lands before the Act was passed, to the effect that Crown Estate Scotland resembles a trust, in which the revenue beneficiary is the Scottish Government Consolidated Fund and the capital is held for Her Majesty and Her Successors. Section 2(4) of the Act requires capital and revenue to be distinguished in the accounts and for provision to be made for recovering capital expenditure from revenue where appropriate and the accounts are prepared on that basis. The section then specifies that:

- any sum received by way of premium on the grant of a lease shall be carried to the revenue account if the lease is for a term of 30 years or less and to the capital account if the lease is for a term exceeding 30 years; and
- net earnings from mineral workings shall be carried one half to the capital account and one half to the revenue account.

To meet the requirements of the Crown Estate Act 1961, and directions made by the Scottish Ministers, the movements in comprehensive income are analysed between revenue and capital accounts. The capital account includes profits or losses arising on the sale of investment properties, the realisation of revaluation gains, the income arising on the grant of operating leases over land in exchange for a premium, the charge from revenue for salary costs, and the transfers between the capital and revenue account as required by Statutory provisions and capital transfer agreements. IFRS cannot be complied with in one respect due to the Crown Estate Act 1961. Where a lease premium is received in respect of an operating lease of less than 30 years the Crown Estate Act 1961 requires that the income is taken direct to the revenue account. This conflicts with the treatment required under IFRS, which requires such income to be spread over the lease term. However the impact is not regarded as material.

## Treasury agreements

The Crown Estate Act 1961 allows adjustments between revenue and capital specifically for the purposes of recouping capital expenditure out of revenue. As Crown Estate Scotland is restricted in its ability to borrow, capital transfer agreements provide Crown Estate Scotland with a reliable and predictable source of capital. By agreement with the Scottish Ministers, the mechanism by which the revenue account is charged is calculated as an amount equivalent to 9 per cent of the previous year's gross revenue and after taking into account depreciation of plant and equipment. As this is the first year of trading for Crown Estate Scotland the Scottish Ministers have agreed that the calculation for 2017/18 be based on the actual turnover achieved within the year.

## Changes in accounting policies in year

The financial statements are prepared in accordance with IFRS and Interpretations in force at the reporting date. No new standards have been adopted during the financial year.

# 2. Significant accounting policies

## 2a. Properties

Properties are valued by independent external valuers at the balance sheet date. The valuations have been carried out in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors.

## Fair value measurement of investment property

IFRS 13 requires the use of valuation techniques for which sufficient data are available, maximising the use of observable inputs and minimising the use of unobservable inputs. The degree of detail of the disclosure depends on the observability of the inputs used. For this purpose, IFRS 13 establishes a fair value hierarchy that classifies the inputs into three levels:

- Level 1: unadjusted quoted prices in active markets
- Level 2: observable inputs other than quoted prices included within Level 1
- Level 3: unobservable and observable inputs where significant adjustments have been applied.

## Investment properties

Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties and those in the course of construction are held at fair value. They are valued on the basis of open market value. When Crown Estate Scotland begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such. Energy and mineral assets are valued only where a letting or licence exists, where an entry has occurred, or where an interest is expected to provide either a revenue cash flow or capital receipt within the foreseeable future. Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties consist of costs of a capital nature. At the balance sheet date investment properties are revalued to fair value. Any surplus or deficit arising on revaluing investment properties is recognised in the consolidated capital account.

## Investment properties under development

Investment properties under development comprise properties subject to a major programme of redevelopment or development. They are categorised as such from the start of the programme until practical completion.

## Owner occupied properties

Any surplus or deficit arising on the revaluation of properties occupied by Crown Estate Scotland is taken to revaluation reserve unless any loss in the period exceeds any cumulative gains previously recognised in the revaluation reserve. In this case the amount by which the loss in the period exceeds the net cumulative gain previously recognised is taken to the consolidated capital account. These properties include a Countryside Rangers' centre on the Glenlivet estate and a work store on the Fochabers estate.

## Disposals

Disposals are recognised at the date of legal completion. Profits and losses arising on disposal are recognised through the consolidated capital account. The profit or loss on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus additions in the period and costs of sale. Properties are transferred between categories at the estimated market value on the date of transfer.



## 2b. Inventories

Inventories comprises timber that has been felled but not removed from site by the purchaser and title has not passed from Crown Estate Scotland. The valuation of inventories is estimated, taking into account the final sales value and the relevant stage of the timber harvesting.

## 2c. Leases

### Crown Estate Scotland as lessor – operating leases

Leases granted to tenants where substantially all the risks and rewards of ownership are retained by Crown Estate Scotland as lessor are classified as operating leases. Where a premium is received in exchange for the grant of a long leasehold interest, the premium is taken to deferred income and released to revenue in the consolidated capital account over the life of the lease. Under the requirements of the Crown Estate Act 1961 a lease premium received on the grant of a lease with a lease term of 30 years or less is taken to revenue in the consolidated revenue account in the year that it is granted.

### Crown Estate Scotland as lessee – finance leases

Leasehold properties are recognised as an asset as the sum of the premium paid on acquisition and the present value of minimum ground rent payments. The corresponding rent liability to the head leaseholder is included in the balance sheet as a finance lease obligation.

## 2d. Other property, plant and equipment

These assets are stated at cost less accumulated depreciation and are depreciated on a straight-line basis over their estimated useful lives as follows:

- Vehicles: 4-10 years depending on the nature of the vehicle
- Plant and Machinery: 4-25 years (pontoons are included in this category and have a useful life of 25 years)
- Computer equipment: 4 years
- Fixtures and Fittings: 4 years
- Office equipment: 4 years

Useful lives and estimated residual values are reviewed annually.

## 2e. Revenue

Revenue is recorded net of VAT and represents the total value of:

### Rental income

Rental income is recognised on a straight-line basis over the term of the lease. A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews. Where a rent free period is included in a lease, the rental income foregone is allocated evenly over the period from the date of the lease commencement to the earliest termination date.

### Royalties

Royalty income is received in return for the extraction of minerals, including aggregates, from the land and seabed.

### Other income

Other income categories comprise income from lease premiums received on the grant of a lease with a lease term of 30 years or less, the sale of produce, miscellaneous fees and sundry income.

## 2f. Taxation

Crown Estate Scotland is not subject to corporation, income or capital gains tax. The revenue profit is paid to the Scottish Government Consolidated Fund and will be used for the benefit of the taxpayer.

## 2g. Banking

Crown Estate Scotland operates a number of bank accounts, ensuring separation of revenue and capital funds. This arrangement is allowable under the Crown Estate Scotland (Interim Management) Order 2017.

## 2h. The Principal Civil Service Pension Scheme (PCSPS)

The PCSPS is an unfunded multi-employer defined benefit scheme. Crown Estate Scotland is unable to identify its share of the underlying assets and liabilities and as such has accounted for the scheme as a defined contribution scheme. A full actuarial valuation was carried out as at 31 March 2015. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).

### 3. Significant judgements, key assumptions and estimates

#### 3a. Trade receivables

The basis of arriving at the provision for impairment of receivables is as follows:

For both rental and non-rental debts the managing agents responsible for the dealing are instructed to review each debt and advise as to its recoverability. Management centrally also review the exposure to different market sectors and make further provision where there is objective evidence of impairment.

#### 3b. Unsettled rent reviews

Where the rent review date has passed, and the revised annual rent has not been agreed, rent is accrued from the date of the rent review based upon the estimation of the revised annual rent. The estimate is derived from knowledge of market rents for comparable properties.

#### 3c. Operating leases

Judgement has been exercised in identifying that in all material respects, where Crown Estate Scotland is the lessor such leases are operating leases. In exercising this judgement, consideration has been given to the nature and economic life of the buildings which are all held within investment properties, and whether the risks and rewards of ownership remain with Crown Estate Scotland. In instances where a premium has been received on the grant of a long lease the same considerations have been applied. In instances where a long lease has been granted in exchange for a premium and the building is 'substantial' in nature, the useful economic life of the building is judged to be greater than the lease length regardless of the lease term.

#### 3d. Property valuations

Investment properties and owner occupied properties are shown at fair value in accordance with valuations carried out by independent valuers. Valuations are based on a number of key assumptions including an estimate of future rental income.

### 4. Changes in accounting policies not yet adopted

At the date of authorisation of these financial statements, the following standards and interpretations were issued but not yet adoptive.

The following two standards are not expected to have a material impact on the financial statements:

- IFRS 15 Revenue from contracts with customers – effective for the financial year 2018-19.
- IFRS 9 Financial Instruments – effective from the financial year ending 2018-19

IFRS 16 - Leases is effective from the financial year ending 2019-20. The projected impact of this is expected to be material. A quantitative impact disclosure will be presented as part of the 2018-19 financial statements.

## 5. Segmental Analysis

### Business segmental analysis

All Crown Estate Scotland's operations are in Scotland and are currently organised into five operating divisions. The divisions are: Rural, Coastal, Marine, Urban and Corporate. These divisions are the basis on which Crown Estate Scotland monitors its operations and upon which decisions are made by the Board.

### Revenue Account

		Year ended 31 March 2018					
	Note	Rural £m	Coastal £m	Marine £m	Urban £m	Corporate £m	Total £m
Rent and royalties	6	3.3	3.3	8.7	0.9	-	16.2
Produce	6	0.2	-	-	-	-	0.2
<b>Revenue</b>		<b>3.5</b>	<b>3.3</b>	<b>8.7</b>	<b>0.9</b>	<b>-</b>	<b>16.4</b>
<b>Direct costs:</b>							
Management fees and costs	7	(0.8)	(0.6)	(0.1)	-	-	(1.5)
Repairs and maintenance	7	(0.3)	-	-	-	-	(0.3)
Other direct expenditure	7	(0.9)	(0.1)	(0.4)	(0.1)	-	(1.5)
<b>Total direct costs</b>		<b>(2.0)</b>	<b>(0.7)</b>	<b>(0.5)</b>	<b>(0.1)</b>	<b>-</b>	<b>(3.3)</b>
<b>Gross profit/(loss)</b>		<b>1.5</b>	<b>2.6</b>	<b>8.2</b>	<b>0.8</b>	<b>-</b>	<b>13.1</b>
<b>Indirect costs:</b>							
Administrative expenses	8	(0.1)	-	-	-	(2.4)	(2.5)
<b>Total indirect costs</b>		<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2.4)</b>	<b>(2.5)</b>
<b>Operating profit/(loss)</b>		<b>1.4</b>	<b>2.6</b>	<b>8.2</b>	<b>0.8</b>	<b>(2.4)</b>	<b>10.6</b>
Depreciation of tangible fixed assets	18	-	-	-	-	(0.2)	(0.2)
<b>Net operating profit/(loss) before capital transfer agreements and Statutory transfers</b>		<b>1.4</b>	<b>2.6</b>	<b>8.2</b>	<b>0.8</b>	<b>(2.6)</b>	<b>10.4</b>
Recovery of capital expenditure under the Crown Estate Act 1961 and Crown Estate Scotland (Interim Management) Order 2017	10	-	-	-	-	(1.3)	(1.3)
Statutory transfers	13	-	-	-	-	(0.1)	(0.1)
<b>Net revenue account profit/(loss) distributed to the Scottish Government Consolidated Fund</b>		<b>1.4</b>	<b>2.6</b>	<b>8.2</b>	<b>0.8</b>	<b>(4.0)</b>	<b>9.0</b>

## Capital Account

		Year ended 31 March 2018					
	Note	Rural £m	Coastal £m	Marine £m	Urban £m	Corporate £m	Total £m
Income from sale or leases	6	-	-	-	-	-	-
Charge from revenue account for salary costs	9	(0.1)	-	(0.5)	-	(0.1)	(0.7)
Net revaluation gains on investment property (including profit/(loss) on disposal)	11	5.0	3.6	44.0	1.7	(0.2)	54.1
<b>Capital profit before capital transfer agreements and Statutory Transfers</b>		<b>4.9</b>	<b>3.6</b>	<b>43.5</b>	<b>1.7</b>	<b>(0.3)</b>	<b>53.4</b>
Recovery of capital expenditure under the Crown Estate Act 1961 and Crown Estate Scotland (Interim Management) Order 2017	10	-	-	-	-	1.3	1.3
Statutory transfers	13	-	-	-	-	0.1	0.1
<b>Net capital account profit</b>		<b>4.9</b>	<b>3.6</b>	<b>43.5</b>	<b>1.7</b>	<b>1.1</b>	<b>54.8</b>

## Consolidated Statement of Financial Position

		Year ended 31 March 2018					
	Note	Rural £m	Coastal £m	Marine £m	Urban £m	Corporate £m	Total £m
<b>Non-current assets:</b>							
Investment properties	15	123.9	32.5	151.5	16.7	-	324.6
Owner occupied property	16	-	-	-	-	-	-
Plant and equipment	18	-	0.4	-	-	0.2	0.6
Receivables due after one year	19	0.3	-	9.8	-	-	10.1
<b>Total non-current assets</b>		<b>124.2</b>	<b>32.9</b>	<b>161.3</b>	<b>16.7</b>	<b>0.2</b>	<b>335.3</b>
<b>Unallocated current assets</b>							<b>18.9</b>
<b>Unallocated liabilities</b>							<b>(10.0)</b>
<b>Net assets</b>							<b>344.2</b>
<b>Acquisitions and capital expenditure</b>	15	<b>124.9</b>	<b>29.4</b>	<b>109.1</b>	<b>15.0</b>	<b>0.2</b>	<b>278.6</b>

## 6. Revenue

	Year ended 31 March 2018 £m
<b>Revenue account</b>	
Rent and royalties	16.2
Produce	0.2
<b>Total revenue reflected in the revenue account</b>	<b>16.4</b>
<b>Capital account revenue</b>	
Revenue – amortisation of income from grant of lease premia	-



## 7. Costs

	Year ended 31 March 2018 £m
Management fees and costs	1.5
Repairs and maintenance	0.3
Other direct expenditure	1.5
Administrative expenses (see note 8)	2.5
<b>Total costs reflected in revenue account</b>	<b>5.8</b>

## 8. Administrative Expenses

	Year ended 31 March 2018 £m
Members' remuneration	0.1
Management and administration expenses	2.4
	<b>2.5</b>

Auditors' remuneration of £31,356 is included within Management and administration expenses. This is split between internal audit, £2,266, and external audit, £29,090.

## 9. Staff Costs

	Year ended 31 March 2018 £m
Wage and salaries	1.9
Social security costs	0.2
Pension costs - defined benefit scheme	0.3
<b>Total staff costs</b>	<b>2.4</b>
Less staff costs charged to capital account	(0.7)
<b>Staff costs reflected in the revenue account</b>	<b>1.7</b>
Included in:	
Administrative expenses	1.0
Direct costs	0.7
Charged to the capital account	0.7
	<b>2.4</b>
	<b>Number</b>
<b>The average number of employees during the year</b>	<b>36</b>

## 10. Recovery of capital expenditure under the Crown Estate Act 1961, The Crown Estate Scotland (Interim Management) Order 2017 and by capital transfer agreement

	Year ended 31 March 2018 £m
By agreement with the Scottish Ministers the income account is charged with an amount as disclosed in note 1	
Total recovered from the capital account	1.3
Depreciation of fixed assets charged as costs in the income account	0.2
<b>Total recovered under capital transfer agreements</b>	<b>1.5</b>

## 11. Net revaluation gains in property and investments (including profit/(loss) on disposal)

	Year ended 31 March 2018 £m
<b>Reflected in the capital account:</b>	
Surplus on revaluation of investment properties	51.7
Adjustment for gross up for deferred rent movement	-
Gain on disposal of investment properties	2.4
Deficit on revaluation of owner occupied properties	-
<b>Net revaluation gains on investment property (including profit/(loss) on disposal)</b>	<b>54.1</b>

## 12. Financial Instruments

Under IFRS 7 “Disclosure & Presentation of Financial Instruments”, we are required to disclose information about the significance of financial instruments held over the year and the nature and extent of risks arising from those financial instruments. We are not exposed to the degree of financial risk faced by other business entities because of the way we are funded. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 mainly applies. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing us in undertaking our activities.

	Year ended 31 March 2018 £m
<b>Financial Assets</b>	
Long term receivables (note 19)	10.1
Trade receivables (note 20)	5.4
Other receivables	0.1
Accrued income (note 20)	2.2
Cash and Cash Equivalents (note 21)	10.9
Prepayments (note 20)	0.1
	28.8

	Year ended 31 March 2018 £m
<b>Financial Liabilities</b>	
Long term payables (note 22)	-
Trade payables (note 22)	0.1
Rents received in advance (note 22)	3.9
VAT and other taxes payable (note 22)	0.5
Accrued expenditure and deferred income (note 22)	0.6
Due to the Crown Estate Commissioners (note 22)	0.4
Due to the Scottish Government Consolidated Fund (note 22)	4.5
	10.0

### Liquidity risk

Crown Estate Scotland is self-financing and a net contributor to the Scottish Government Consolidated Fund. Crown Estate Scotland's input to budget and outturn reporting is restricted to the amount of net profit contribution and the timing of payments to the Scottish Government. As a public organisation, and in accordance with the Crown Estate Scotland (Interim Management) (2017) Order, Crown Estate Scotland can request to borrow finances from the Scottish Government if required. Crown Estate Scotland's exposure to liquidity risks is therefore limited.

### Fair values

Assets and liabilities are carried at fair value in the balance sheet. All investment properties are classified as Level 3 within the value hierarchy as defined within IFRS 13 (see note 17).

### 13. Statutory Transfers

Under the provisions of the Crown Estate Scotland (Interim Management) Order 2017 the following amounts are carried to the capital account from the revenue account. Gross annual income received, and the expenses incurred, from or in connection with mining leases or the working of mines or minerals are carried or charged one half to the capital account and one half to the revenue account.

	Year ended 31 March 2018 £m
Transfer from revenue account to capital account:	
Mining and/or mineral dealings	0.1

### 14. Scottish Government Consolidated Fund Payment

In accordance with section 1 of the Civil List Act 1952, the payment of hereditary revenues from Scottish assets is to be paid into the Scottish Government Consolidated Fund. £4.5million was paid to the Scottish Government prior to the year end and a further £4.5m is included within payables.

### 15. Investment Properties

Portfolio	Rural £m	Coastal £m	Marine £m	Urban £m	Corporate £m	Total £m
Opening fair value	-	-	-	-	-	-
At opening valuation	-	-	-	-	-	-
Acquisitions	122.8	29.4	108.5	15.0	-	275.7
Capital expenditure	2.1	-	0.6	-	0.2	2.9
Capital receipts	(1.8)	(0.4)	(0.3)	-	-	(2.5)
Disposals	(2.5)	-	-	-	-	(2.5)
Revaluation	3.3	3.5	42.7	1.7	(0.2)	51.0
<b>At closing valuation</b>	<b>123.9</b>	<b>32.5</b>	<b>151.5</b>	<b>16.7</b>	<b>-</b>	<b>324.6</b>
Deferred income from lease premia received	-	-	-	-	-	-
<b>Closing fair value</b>	<b>123.9</b>	<b>32.5</b>	<b>151.5</b>	<b>16.7</b>	<b>-</b>	<b>324.6</b>

All investment properties are classified as Level 3 within the value hierarchy as defined within IFRS 13. Level 3 inputs used in valuing the properties are those which are unobservable and observable inputs where significant adjustments have been applied to determine specific property valuations, as opposed to Level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

The property portfolio was valued on 31 March 2018 by independent accredited external valuers with a recognised relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation methods used are in accordance with RICS and those recommended by the International Valuation Standards Committee and are consistent with the principles in IFRS 13. More information about the fair value measurement is set out in note 17.

## 16. Owner occupied property

	£m
Opening fair value	-
Capital expenditure	-
Revaluation	0.04
<b>Closing fair value</b>	<b>0.04</b>

Owner occupied properties are classified as Level 3 within the value hierarchy as defined within IFRS 13. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to Level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

The property was valued on 31 March 2018 by Strutt & Parker, independent accredited external valuers with a recognised relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation methods used are in accordance with those recommended by the International Valuation Standards Committee and are consistent with the principles in IFRS 13. Information about the fair value measurement of owner occupied properties is set out in note 17.

## 17. Fair value measurement of properties

For all investment property that is measured at fair value, the current use of the property is considered the highest and best.

### Valuation process

The entire portfolio is valued on an annual basis by independent and qualified valuers on a fair value basis in accordance with IFRS 13, the RICS Valuation – Professional Standards (The Red Book) January 2016 and VPGA 1 guidance therein regarding Valuation for inclusion in financial statements. Crown Estate Scotland provides data to the valuers, including current lease and tenant data along with asset specific business plans. The valuers use this and other inputs, including market transactions for similar properties, to produce valuations. These valuations and the assumptions they have made are then discussed and reviewed with the asset management team, the senior management team and the members. The annual valuation is presented to and is endorsed by the Investment Committee.



## Fair value hierarchy

The following table shows an analysis of the fair values of investment property recognised in the consolidated balance sheet.

All are considered as Level 3 in the fair value hierarchy.

Class of property	Fair value at 31 March 2018 £m	Predominant valuation technique	Key observable inputs	Range	Principal valuer
<b>Rural and Coastal portfolio:</b>					
Agricultural	106.7	Comparable/Investment	Proportion of vacant possession Yield	46%-100% 2%-3%	Strutt & Parker
Coastal	32.5	Investment	Yield	5%-18%	Bidwells
Forestry	16.0	Comparable	Land value Timber value	£1,100-£3,250 £200-£4,900	Tim R Kirk
Minerals	1.2	Investment	Yield	5%-25%	Wardell Armstrong
	156.4				
<b>Marine portfolio:</b>					
Renewables – Offshore Wind	100.7	Investment/DCF	Yield Discount rates	4.5%-19% 8.25%-25%	JLL
Renewables – Wave & Tidal	0.3	DCF	Discount rates Attrition rates	10%-27.5% 0-100%	Powis Hughes
Cables & Pipelines	23.5	Investment	Yield	6%-10%	Powis Hughes
Aquaculture	27.0	Investment	Yield	12.52%-17.52%	Savills
	151.5				
<b>Urban portfolio:</b>					
Offices		Investment	ERV Yield	£22-£26psf 6.5%-7.5%	JLL
Retail		Investment	ERV Yield	£200psfZA 4.9%	JLL
	16.7				
<b>Total all portfolios at valuation</b>	<b>324.6</b>				

Owner occupied property valued at £0.04m is included in Agricultural properties and valued on a vacant possession basis.

## The fair value of investment property is determined using the following valuation methods:

### Investment Method

The Investment Method has been used which involves estimating the rental value of each lettable unit within the property, making an assessment of void periods and other costs of letting and then capitalising at an appropriate rate. Hope value has been included where there is future reversionary potential, e.g. conversion of property for an alternative use.

### **Discounted cash flow (DCF)**

This involves the projection of cash flows to which an appropriate market-derived discount rate, and an attrition rate if appropriate, is applied to establish the present value of the income stream.

### **Comparable method**

An indication of value arrived at by comparing information of the subject asset with similar assets for which valuation data is available.

### **Wind farms**

Each Round 1 and Round 2 wind farm has been valued individually using an 'all risk' yield applied to the minimum and budgeted rents, or the actual output, subject to an end allowance where appropriate. As a cross check, a discounted cash flow of projected revenue streams has been undertaken with appropriate discount rates for differing levels of status in the development programme.

Round 3 has been valued on a portfolio basis.

### **Strategic land**

Hope value for strategic land is incorporated into the Rural portfolio, discounted to reflect the stage reached in the planning process.

### **Properties being redeveloped**

The Residual Method has been adopted which involves calculating the potential value when the property has been completed (using the Investment Method) and then deducting the cost to complete the construction, achieve lettings and appropriate allowances for profit to compensate for the risk of carrying out the development.

### **Rural and residential properties**

These are generally valued using the Comparable Method and cross checked with the Investment Method.

### **Sensitivity analysis**

The significant unobservable inputs used in the fair value measurement categorised within level 3 of the fair value hierarchy of the investment property are:

- Estimating the rental value of each lettable unit with evidence derived from other recent lettings in the property itself or similar properties nearby, making adjustments for size, specification, location and letting incentives.
- Estimating the length of time taken and the cost to let vacant space and the likelihood of lease renewals.
- Deciding the appropriate capitalisation rate to be applied derived from transactions of comparable properties.
- Choosing the appropriate discount rate to vacant possession value for differing lengths and types of tenure on rural and residential tenancies.
- For property under development the assessment of the value created on completion and the allowance for construction and letting costs to achieve that.
- Inclusion of hope value for a higher value use (e.g. strategic land and properties with potential for residential conversion) dependent upon the likelihood, time and cost of achieving that use.
- Allowance for the level of volatility on turnover related valuations e.g. aggregates, minerals and aquaculture.
- Assessment of functional lifespan of offshore assets e.g. cables and pipelines.
- Assessing the appropriate discount rate for offshore windfarms from site exclusivity through to a generating wind farm.

Significant increases/(decreases) in the ERV would result in a higher/(lower) fair value measurement.

Significant increases/(decreases) in the long term vacancy rate (or yield) would result in a lower/(higher) fair value measurement.

## 18. Plant and equipment

	Plant and machinery £m	Office equipment £m	Computer equipment £m	Fixtures & fittings £m	Motor vehicles £m	Total £m
Cost at 1 April 2017	-	-	-	-	-	-
Additions	0.4	-	0.4	-	-	0.8
Disposals	-	-	-	-	-	-
<b>Cost at 31 March 2018</b>	<b>0.4</b>	<b>-</b>	<b>0.4</b>	<b>-</b>	<b>-</b>	<b>0.8</b>
Depreciation at 1 April 2017	-	-	-	-	-	-
Charge	0.1	-	0.1	-	-	0.2
Disposals	-	-	-	-	-	-
<b>Total depreciation at 31 March 2018</b>	<b>0.1</b>	<b>-</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>0.2</b>
Net book value at 1 April 2017	-	-	-	-	-	-
<b>Net book value at 31 March 2018</b>	<b>0.3</b>	<b>-</b>	<b>0.3</b>	<b>-</b>	<b>-</b>	<b>0.6</b>

## 19. Receivables due after one year

	As at 31 March 2018 £m
<b>Other receivables</b>	<b>10.1</b>

## 20. Trade and other receivables

	As at 31 March 2018 £m
Trade receivables	5.4
Other receivables	0.1
Prepayments	0.1
Accrued income	2.2
	<b>7.8</b>

Trade and other receivables are shown after deducting provisions for bad and doubtful debts of £120,264. The trade receivable impairment reflects the application of Crown Estate Scotland's judgement in respect of bad and doubtful receivables.

The Board considers that the carrying amount of the trade and other receivables approximates to their fair value.

## 21. Cash and Cash Equivalents

	£m
Balance as at 1 April 2017	-
Net change in cash and cash equivalents	10.9
<b>Balance as at 31 March 2018</b>	<b>10.9</b>
The following balances were held within:	
Revenue account	2.0
Capital account	8.9
<b>Balance as at 31 March 2018</b>	<b>10.9</b>

## 22. Payables

	As at 31 March 2018 £m
<b>Amounts falling due within one year:</b>	
Trade payables	0.1
Rents received in advance	3.9
VAT and other taxes payable	0.5
Due to the Crown Estate Commissioners	0.4
Due to the Scottish Government Consolidated Fund	4.5
Accruals and deferred income	0.6
	<b>10.0</b>
<b>Amounts falling due after more than one year</b>	
Deferred income on grant of long leases	-
	-

The Crown Estate Transfer Scheme 2017 transferred the existing Scottish functions of the Crown Estate to Crown Estate Scotland on 1 April 2017 from the Crown Estate Commissioners. The Scheme included provisions for the accounting of income and expenditure between the transferor and transferee. As at 31 March 2018 £0.4m was outstanding to the Crown Estate Commissioners.

During the period Crown Estate Scotland received a lease premium of £45,000 on a long lease. In line with the requirements of the Crown Estate Act 1961 (note 1) this will be amortised over the length of the lease.

## 23. Leasing

### Operating leases with tenants

Crown Estate Scotland leases out all of its investment properties under operating leases for average lease terms of 15 years to expiry. The future aggregate minimum rentals, excluding contingent rents receivable under non-cancellable leases are as follows:

	As at 31 March 2018 £m
Less than one year	2.0
Between two and five years	1.7
More than five years	9.0
	<b>12.7</b>

Contingent rents receivable were £2 million at 31 March 2018.

Crown Estate Scotland has no obligations under finance leases.

## 24. Capital Commitments

At 31 March 2018 capital expenditure of £2.4m had been authorised but not yet committed.

## 25. Contingent Liabilities

As part of the ordinary course of business Crown Estate Scotland receives and deals with claims relating to some of the crown assets it manages. Based on the information available it is not considered that resolution of any of these claims will give rise to any material liabilities.

Crown Estate Scotland is not subject to any ongoing litigation.

## 26. Related Party Transactions

Certain Board members hold posts, or have interests, in other organisations with which Crown Estate Scotland transacts. The table below sets out details of the related parties and the transactions undertaken during the period to 31 March 2018.

Member	Organisation	Position held	Amounts receivable by Crown Estate Scotland £	Amounts payable by Crown Estate Scotland £	Nature of transaction
Dr Michael Foxley	The University of the Highlands and Islands	Member of Court	-	6,500*	Project sponsorship*
	Scottish Fire and Rescue Service	Board member	4,858	-	Contribution to costs
	Mallaig Harbour Authority	Board member	15,450	-	Rental income
Amanda Bryan	Forestry Commission	Commissioner	77,081	-	Grant income
			2,650	-	Rental income
	Highlands and Islands Enterprise	Board member	9,265	-	Rental income
	The University of the Highlands and Islands	Employee	-	*as above	*as above

## 27. Third party deposits

At 31 March 2018 Crown Estate Scotland held £136,199 of tenant deposits on behalf of third parties.

## 28. Events after the Reporting Period

Subsequent to the year-end proceeds totalling £2.5m arose from the sale of four rural properties and additional profit receivable from an historic land transaction.





## **Crown Estate Scotland (Interim Management)**

### **DIRECTION BY THE SCOTTISH MINISTERS**

The Scottish Ministers, in accordance with section 2 of the Crown Estate Act 1961, amended by the Scotland Act 2016, chapter 11, Part 4, section 36 hereby give the following direction:

1. The statement of accounts for the financial year ended 31 March 2018, and subsequent years shall, subject to schedule 1, comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM), which is in force for the period for which the statement of accounts are prepared.

2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial period, and of the state of affairs as at the end of the financial period of Crown Estate Scotland (Interim Management) in the exercise of its functions.

3. This direction shall be reproduced as an appendix to the accounts.

Signed by the authority of the Scottish Ministers

Dated 4<sup>th</sup> July 2018

## Accounts Direction

### Schedule 1

To meet the requirements of the Crown Estate Act 1961, the movements in comprehensive income will be analysed between revenue and capital accounts. The statement of accounts will also reflect the transfers between capital and revenue account as required by Statutory provisions and capital transfer agreements.

In departure from International Financial Reporting Standards and the FReM, where a lease premium is received in respect of an operating lease of less than 30 years the Crown Estate Act 1961 requires that the income is taken direct to the revenue account.







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