

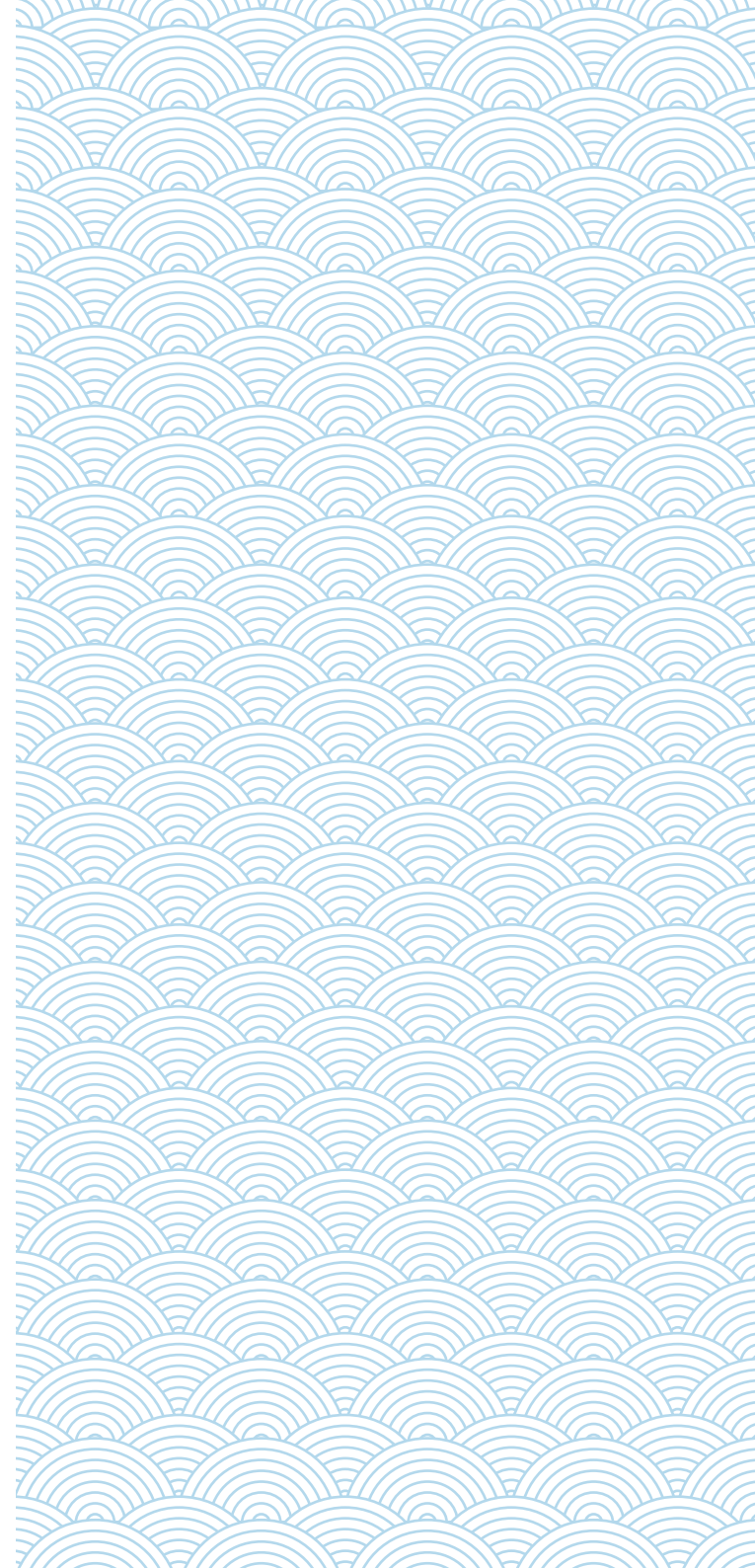
Corporate Plan 2017-2020



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

Our Vision

Innovating with
land and property
to create prosperity
for Scotland and
its communities



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1 Introduction

Crown Estate Scotland assets stretch the length and breadth of Scotland.¹

The seabed, 590km square 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.² How we manage it impacts thousands of businesses, communities, families and organisations – as well as the wider Scottish economy and environment.

Crown Estate Scotland is a young organisation, albeit with a history that goes back centuries. We started operating on 1 April 2017 and, as an interim body, are tasked with managing the estate until new legislation implementing long-term arrangements comes into force.³

This corporate plan sets out how we will contribute to the Scottish Government's purpose of 'creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth' during the period 2017-2020. We will do this by managing land and property in an innovative way to create prosperity for communities and for Scotland, providing opportunities for new and existing business to thrive and ensuring excellent service for our tenants.

Our vision and role, our goals and objectives, are all designed to deliver wider benefits. This plan forms our commitment to communities and businesses across Scotland and we look forward to reporting on progress.⁴

Environmental Assessment (Scotland) Act 2005

As the corporate plan falls within the scope of the Environmental Assessment (Scotland) Act 2005, we have had to gauge its likely effects on the environment in accordance with the criteria in Schedule 2 of the Act. In doing this we have concluded, in the circumstances, that the plan is likely to have no or minimal effects in relation to its impact on the environment and that in our opinion the plan is therefore exempt as per Section 7 of the 2005 Act. The Consultation Authorities have been notified of our opinion, the reasons behind it and our conclusion that we believe a Strategic Environmental Assessment is not required.

¹ Crown Estate Scotland is the trading name of Crown Estate Scotland (Interim Management).

² Throughout this document, 'the estate' (or 'the assets') refers to the land, property and rights managed by Crown Estate Scotland. Within the estate, there are four categories of assets: rural, coastal, marine, and urban. More detail is in Section 3.

³ The Government's Programme for Scotland 2017-18 commits to introducing legislation on the future management of Crown Estate in Scotland (www.gov.scot/Resource/0052/00524214.pdf, p21)

⁴ The first annual report of Crown Estate Scotland will be published in the summer of 2018.



Amanda (far right) and Andy Wells, Head of Property (middle),
with Glenlivet tenants Andy Duffus and his family

2 Foreword

Crown Estate Scotland assets are unique in scale and potential. By working in new and innovative ways, supporting sustainable and inclusive economic growth, we can really help Scotland to flourish.

And with that potential and opportunity comes a responsibility to listen to and fully understand our tenants, communities and partners, and to work with them in a way that benefits all involved.

Since becoming Chair in April 2017, I have worked closely with our staff and newly-appointed Board and met many stakeholders up and down the country.

The energy and commitment of everyone involved with the organisation has impressed me. In particular, the staff have embraced recent changes in the business as management responsibilities were transferred from UK Government to Scottish Ministers, with professionalism and diligence. With this in mind, I know we can look to the future with confidence.

In this three-year plan we start to outline that future, how we will work to create prosperity for our tenants and for Scotland as a whole. This includes providing a revenue profit to the Scottish Government, growing the value of the estate and supporting new areas of economic growth.

Crown Estate Scotland has been set up to manage the assets on an interim basis and until new permanent arrangements become law. Draft legislation is expected to be published in 2017/18. So further change is coming – but that does not curtail our ambition for what we can achieve. Far from it.

We now have an opportunity to review our goals, reframe our relationships and, where appropriate, work in a different way: we want to innovate to improve. We want to strengthen our partnerships with the many people and organisations we work with, collaborating effectively at a national and local level with public bodies, tenants, businesses and the third sector. This will include piloting methods of local management of assets.

One of our most important challenges is to grow our revenues and manage our costs. This will involve selling some assets so that we can invest in existing and new ones that will generate income in the future, supporting

wider economic growth. We will continue to invest in, for example, offshore renewables and our rural estates.

We contribute to vitally important sectors of the Scottish economy such as aquaculture, ports & harbours, offshore renewables, tourism, agriculture and forestry. We make a difference to the lives of people across Scotland, how they earn a living and the wellbeing of their community.

By 2020, I believe that we will be able to show how we have used our resources intelligently, innovatively and responsibly, working alongside others to create real value – prosperity – for Scotland and its communities. At all times, we will be guided by our values of collaboration, integrity, commercialism and excellence.

Finally, thank you to the staff, external partners and stakeholders who have contributed to developing this ambitious plan. While there are challenges, I am confident that we have the shared vision and the skills needed to deliver.



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

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. Importantly, we are a net contributing body – we give more money to the public purse than we receive in direct funding.

We operate under a Framework Document drawn up by the Scottish Government. This details our functions, duties and powers. More on governance is in Section 6 and a diagram illustrating the relationship with Scottish Government and Ministers is in Annex 1.

Our purpose is to achieve revenue and capital growth and provide continuity in customer service and asset management to support the Scottish Government's overall purpose of creating a more successful country, with opportunities for all to flourish through sustainable economic growth.

Our 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. Working with tenants, communities and other partners and ensuring environmental and financial sustainability is central to our approach and our values.

The estate is a unique mix of land, property and rights, with a total property value of £275.7m. 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).

MARINE

12nm

Rights to lease seabed for fish farms, plus telecommunication and electricity cables and oil & gas pipelines, out to the 12-nautical mile limit

RURAL

37,000ha

The Glenlivet, Whitehill, Fochabers and Applegirth estates cover 37,000ha (inc. agricultural, commercial and residential tenancies, 5000ha forestry, sporting and mineral rights)

COASTAL

12nm

Rights to lease seabed out to the 12-nautical mile limit, plus just under half of Scotland's foreshore, for marine infrastructure

URBAN

2760 sq m

Currently consists of one property in central Edinburgh with retail and office space

⁵ Property value as at 31 March 2017, assessed by independent valuers. Figures have been rounded. Aquaculture is £23.72m and Energy & Infrastructure (offshore renewables, cables & pipelines) is £84.82m.

200nm

Rights to lease seabed for renewable energy generation and gas and carbon dioxide storage out to the 200-nautical mile limit

£108.54m⁵

Market value



Tenants include fish farmers, businesses that cultivate / harvest seaweed, renewable energy developers, and cable and pipeline operators



Rights to fish wild salmon and sea trout in river and coastal areas, as well as rights to naturally-occurring gold & silver across most of Scotland

£122.77m

Market value



Tenants include farmers, residents, SMEs, organisations operating electricity cables and telecommunications masts, angling associations and mining companies

£29.42m

Market value



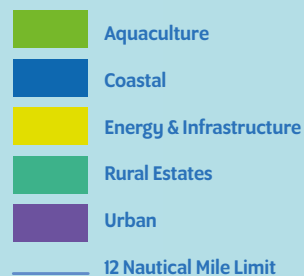
Tenants include port & harbours, moorings associations and users of pontoons, piers & jetties, as well as utilities and other bodies that have pipes and cables crossing the shoreline

£15.05m

Market value



Tenants include a premium lifestyle and fashion brand and professional services and property development companies

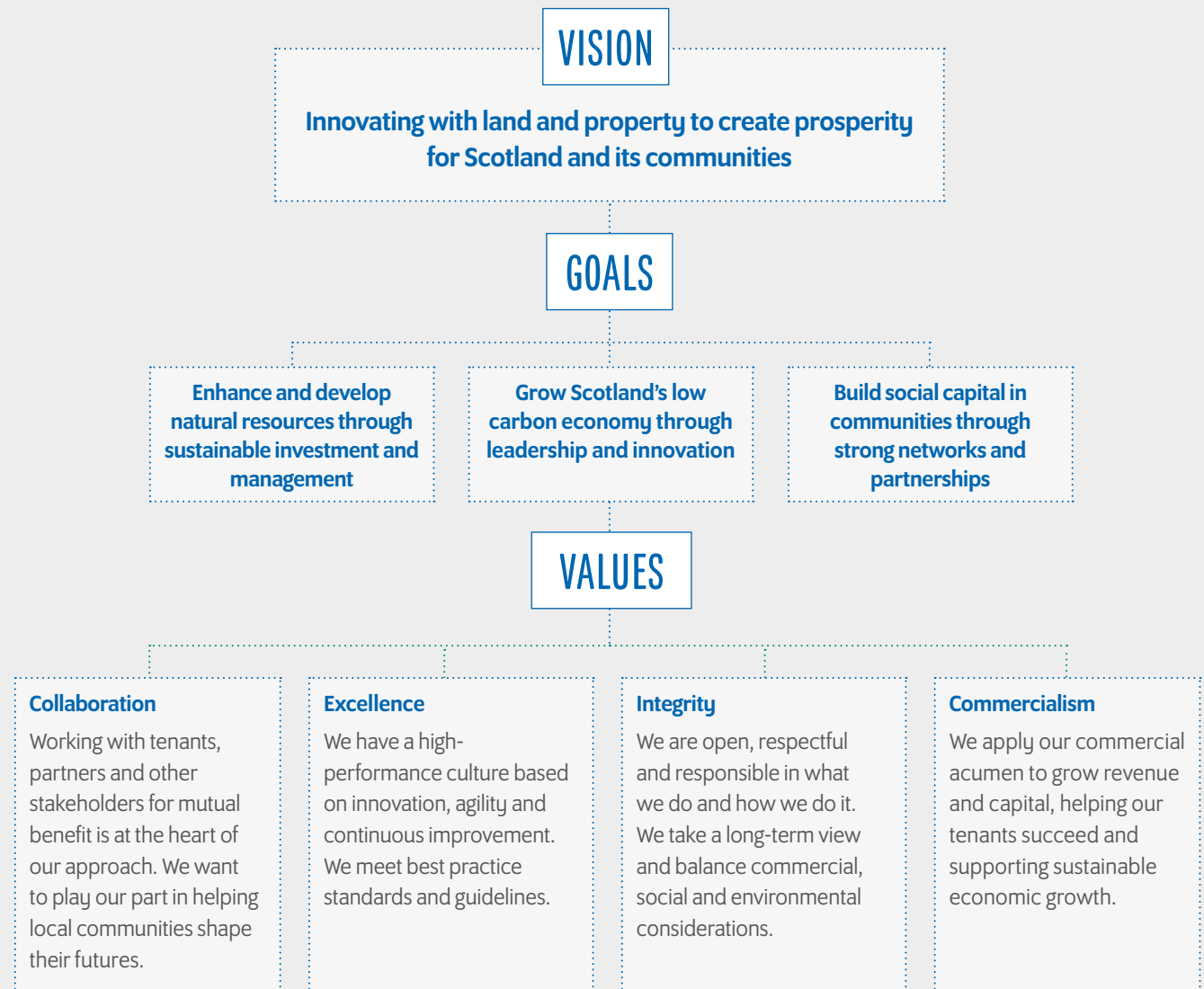


Not all assets and activities are shown.
For a comprehensive map see www.crownestatescotland.com

Who we are and what we do (cont.)

We have 37 staff based at our office in Edinburgh and on the Glenlivet and Fochabers Estates in Moray. We also contract teams of managing agents to provide specialist expertise, property management services and local support in rural and coastal communities.

We manage the assets to enhance capital and revenue while delivering wider public benefits – prosperity – for all. Key to this is finding new ways of working including closer engagement with communities, tenants and others to help them succeed, and operating in a way that is efficient, effective and responsive. Our vision, goals and values guide all that we do and how we do it.



OUR STRATEGIC OBJECTIVES



4 Our strategic objectives

Our strategic objectives, to be achieved by March 2020, contribute to the delivery of Scottish Government's National Outcomes and Economic Strategy. These objectives will be carried through to our annual business plans and reflected in our investment strategy.

We have also aligned with the Government's 2017-18 legislative programme and energy strategy, for example in our work in Carbon Capture & Storage (Section 4.2.1) and in our drive to empower coastal, island and rural communities⁶ by supporting local decision-making and success.

The creation of Crown Estate Scotland offers an opportunity to review past practice, while safeguarding what has been done well. In this way, we want to be bold and challenging, 'pushing the boundaries' with new ways of working, where this can be shown to offer benefits. Piloting new methods of local management of assets will build capacity and empower communities, as will ensuring there are opportunities for people to have a say about what we do.⁷

Reinvigorating how we work with others includes a commitment to open and effective engagement with stakeholders, with a particular focus on local communities as well strategic partners (including those with a UK-wide remit), and a drive to provide more information about what we do and how we do it.

We are an interim organisation, operating against a backdrop of uncertainty including the implications of Brexit (particularly in the agricultural and aquaculture sectors) and continuing volatility in the energy market affecting offshore renewables as well as oil & gas pipeline operators. On a more localised scale, the scrutiny of aquaculture industry practice, including interactions between wild and farmed fish and operators' relations with communities, continues. Further detail on our operating environment is covered in Sections 4.2 to 4.5.

The ability to cross-subsidise – funding growth / investments in one part of the business by generating income in others – is critical. Raising capital through sales and other activity enables us to invest to generate revenue and grow value (through sales, development and acquisitions).

Our approach to sales of agricultural units specifically is set out in our farms sales framework.⁸

Our investment strategy is currently being developed. It will set out how we aim to develop the estate in areas such as offshore wind energy, rural land and buildings (including potential housing development in the Central Belt), aquaculture (finfish, shellfish, seaweed) and urban commercial property. We will continue to invest, for example, in offshore renewables and our rural estates, including agricultural units. With this in mind, we will publish an updated set of KPIs and targets with our 2018-19 business plan and our investment strategy.

In Sections 4.1 to 4.5 we detail our strategic objectives, how we will deliver these and, where possible, KPIs and targets. Strategic objectives 1 to 5 are covered in Section 4.1, with 1, 2, and 3 also covered in the subsequent sections for the four sets of assets (marine, rural, coastal and urban).

⁶ The Government's Programme for Scotland 2017-18, p68

⁷ Crown Estate Scotland is not bound by the Community Empowerment (Scotland) Act 2015 but we work in alignment with it where possible.

⁸ Our farm sales framework (interim) can be found in the Farming & Forestry section at www.crownestatescotland.com/maps-and-publications

4.1 Activity across the business

This section covers corporate activity such as finance and the systems, data and expertise that underpin our operations, as well as engagement and transparency. It also includes projects or initiatives that potentially cover more than one category of assets. For example, we aim to establish pilots of local management for different types of assets so have referenced this here rather than in subsequent sections.

We have also indicated below how our activity contributes to the Scottish Government's National Outcomes and to the four priorities in Scotland's Economic Strategy (investment, internationalisation, inclusive growth and innovation).

| STRATEGIC OBJECTIVE | STRATEGY | KPI / TARGET | NATIONAL OUTCOME / ECONOMIC STRATEGY |
|---|--|--|---|
| 1. Contribute to Scotland's economic, social and environmental wellbeing | Ensure 'good management' ⁹ by developing a tool so we can better understand, measure and monitor our economic, social and environmental impacts; use to innovate, making more sustainable business decisions and creating wider benefits; share with other SMEs to drive inclusive and sustainable economic development | Tool developed and embedded in decision-making; baseline and targets established; progress towards targets evidenced; effective knowledge exchange in SME sector (KPI reference no. 1) | We realise our full economic potential with more and better employment opportunities for our people We reduce the local and global environmental impact of our consumption and production Innovation / inclusive growth / investment |
| | Embed the principles of the Scottish Government's Land Rights and Responsibilities Statement in what we do and how we do it | Three local asset management pilots in place (2); transparency enhanced (3); greater collaboration evidenced (see objectives 3 and 4 for further detail) | |
| 2. Grow revenue and enhance capital value of the estate | Support commercial activity on the estate inc. providing advice and support informed by tenant research | Revenue generated (2017-18 as baseline) (4) Total capital property value (5) | We live in a Scotland that is the most attractive place for doing business in Europe |
| | Investment strategy based on economic return, social value and environmental sustainability; review how we use agents to ensure they provide value for money and are fully aligned with our objectives | KPIs and targets be published 2018-19 and to include ability to cross-fund between different types of assets, raise capital in a reasonable timescale and grow revenue while ensuring no overexposure to any particular asset, geographical area, industry or sector (6) | We realise our full economic potential with more and better employment opportunities for our people Investment / innovation |

⁹ Good management is one of Crown Estate Scotland's statutory obligations in the Crown Estate Act 1961.

| STRATEGIC OBJECTIVE | STRATEGY | KPI / TARGET | NATIONAL OUTCOME / ECONOMIC STRATEGY |
|--|---|---|--|
| 3. Develop local decision-making and success, with a particular focus on communities and coastal local authorities | Reinvigorate engagement with a structured approach based on independent research and best practice | Tenant satisfaction levels above 75% (7) and key local coastal authorities' / partners' satisfaction levels above 70% (8) | We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others Inclusive growth / innovation |
| | Involve people in decisions about land in line with Land Reform Act and Community Empowerment Act: develop and promote guidance / criteria for pilots of local asset management (or ownership of certain types of assets); roll-out an engagement charter and consult on annual business plans | Case study of meaningful engagement that influences outcomes (9) Three local asset management pilots in place (as per KPI no. 2) | |
| 4. Build confidence and trust in the organisation | Roll-out tenant service and engagement charters; dedicated communications campaign to increase transparency, demonstrate responsiveness and raise awareness about what we do and how we do it; voluntary registration of assets rolled-out ¹⁰ ; data relating to assets publicly available under an open licence; report regularly to the public on our performance; consult on annual business plans; consult tenants through forums and independent surveys; comply with relevant Scottish Land Commission (SLC) guidance on tenant farming | Tenant satisfaction levels above 75% and key local authorities' / partners' satisfaction levels (to include transparency) above 70% (as per KPI no's. 7 and 8) Priority assets identified and registered (10) Create Open Data Publication Plan (2018-19) and set up portal (2019-20) that provides public access to key asset agreement spatial and attribute data (11) Annual reports produced (12) Consultation and survey feedback evidenced in final plans (13) Compliance with SLC guidance (14) | We live in a Scotland that is the most attractive place for doing business in Europe We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others Investment / inclusive growth |
| 5. Develop and deploy our people's expertise to deliver success | Align our skills and knowledge with organisational needs through clear CPD plans for each employee; ensure policies and procedures are in place to protect the health & safety of our staff and tenants; share expertise (e.g. guidance to existing and potential tenants, education and knowledge transfer initiatives, contributing to or leading industry/sector forums and initiatives) and work with key partners (e.g. University of Highlands & Islands, Business in the Community Scotland) on initiatives to promote inclusive growth and job creation in the low carbon economy | Staff survey shows high employee engagement levels (min 75% scoring 'good' to 'strong') (15); staff retention (max 10% unplanned turnover) (16) Health & safety policies and procedures embedded (17) Evidence of participation in, and leadership of, education and knowledge transfer initiatives in key sectors (18) | We are better educated, more skilled and more successful, renowned for our research and innovation We realise our full economic potential with more and better employment opportunities for our people Inclusive growth / investment |

¹⁰ Speed of registration will be dependent on availability of resources.

MARINE



The first wind turbine generator jacket being installed at Beatrice Offshore Windfarm in the Outer Moray Firth.
Credit: Beatrice Offshore Wind Farm Limited / Seaway Heavy Lifting

4.2 Marine

The marine assets encompass two different types of activity - Energy & Infrastructure and Aquaculture.

4.2.1 Energy & Infrastructure

Introduction

We have a key role in ensuring a reliable supply of affordable, low carbon energy, contributing to the Scottish Government's 2030 target for the equivalent of 50% of Scotland's heat, transport and electricity consumption to be supplied from renewable sources.

On the marine assets (i.e. the seabed) we work with developers in wave & tidal energy and offshore wind energy (which can be fixed or floating depending on the type of structure used). Tenants also include those who provide critical infrastructure such as operators of cables and pipelines for oil & gas, electricity, and telecommunications.

We also have an investment in MeyGen following The Crown Estate's £10m capital funding for the project aimed at furthering the tidal sector as a whole. This helped ensure that this world-first commercial scale-project, led by developer Atlantis Resources and located in Scottish waters, had the funds to go ahead.

Leases are negotiated with developers to ensure that access to the seabed is managed in a way that supports project delivery.¹¹ Importantly, we nurture new activity by funding and supporting strategic research to help industry development. Current projects include a study of the UK-wide macro-economic benefits the floating wind industry could deliver and a suite of collaborative projects to help reduce consenting uncertainties for offshore renewable energy projects.

We work with local authorities, statutory nature conservation bodies and other stakeholders at an early stage before we grant a developer rights.

¹¹ Crown Estate Scotland's role in offshore activity is that of landlord, catalyst and supportive partner. Regulators are responsible for environmental considerations and regulatory compliance. Planning authorities are responsible for assessing applications including consultation with neighbouring communities and considering the interests of other offshore users.

THE SECTOR



32%

32% reduction in cost of energy from offshore wind (2012-17)



84

Beatrice offshore wind farm will consist of 84 turbines linked by 140km of cabling



11GW

Potential for up to 11 GW of tidal energy and up to 18 GW of wave energy in Scotland

OUR ACTIVITY



900MW

Nearly 900 MW offshore wind capacity currently leased



9

Nine agreements in place for additional offshore wind



£84.82m

Energy & Infrastructure assets (offshore renewables, cables & pipelines) valued at £84.82m

Context, policy and stakeholders

- Offshore wind contribution is increasing and will continue to as new projects start operating. Wave and tidal energy technologies are currently less widely deployed and are at an earlier stage of commercialisation, with potential to grow in future.
- 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.
- We work closely with Scottish Government to understand emerging policy and how we can best contribute to delivery. Any leasing for offshore renewables will be aligned with relevant Marine Scotland planning initiatives.
- Lead-times for projects are typically 10 to 12 years and technology development spans years, sometimes decades. This means that we need to plan far in advance and be flexible.
- Oil & 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.
- Domestic telecommunications are increasingly driven by community-focussed agendas while cables for large-scale telecommunications may offer some development potential.
- There is potential for carbon dioxide 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.

Key stakeholders for our energy and infrastructure activities include government and economic development agencies, statutory nature conservation bodies, industry bodies, regulators and planning authorities, energy developers and local authorities.

| STRATEGIC OBJECTIVE | STRATEGY | KPI / TARGET |
|---|--|---|
| 1. Contribute to Scotland's economic, social and environmental wellbeing | Make seabed available at the right time and on the right terms to help attract investment in new energy assets for Scotland | New agreements with developers in place to increase low carbon energy generation (19); continued capital investment by industry (20) |
| | Establish UK steering group to investigate opportunity; invest in UK-wide study of socio-economic benefits from new commercial scale deep water renewables | Robust evidence (inc. economic modelling) to inform UK-wide policy (21) |
| | Build knowledge and understanding of marine natural capital and its potential application to Scottish waters | Existing work reviewed and next steps identified (22) |
| 2. Grow revenue and enhance capital value of the estate | Work with tenants to ensure best use of the offshore energy and infrastructure assets | Support timely completion of project construction (23) |
| | Unlock more value from cable and pipeline infrastructure assets, working with industry partners | New agreements with developers in place to increase electricity and telecommunications transmission in line with industry investment (24) |
| | Support the CCS (carbon capture & storage) opportunity in Scotland; support project proposals through the leasing process, including the proposed Acorn Project in Aberdeenshire, to facilitate a first step in establishing CCS in the North Sea | At least one study on CCS delivered; responsive, flexible advice and support on leasing to developers provided (25) |
| 3. Develop local decision-making and success, with a particular focus on communities and coastal local authorities | Involve tenants and stakeholders in development of plans and strategies through direct engagement and via partners and agencies e.g. Scottish Renewables, other industry bodies. This will include dialogue with stakeholders about the timing and location of any new leasing | Tenant and stakeholder views reflected in final plans and strategies (26) |
| | Work with economic development agencies to explore socio-economic benefits from offshore renewables to date; review how we structure seabed rights to ensure benefits are optimised | Reduced risk to successful investment in offshore energy and infrastructure (27) Agree overall approach with agencies; complete review and roll-out changes (28) |
| | Contribute to the work of Regional Marine Planning Partnerships, which help provide local input into marine management | Expertise, information and support provided (29) |

4.2.2 Aquaculture

Introduction

Scotland has a very consolidated salmon farming sector dominated by multinationals and a much smaller shellfish sector, concentrated in Shetland and comprising many locally based growers. Seaweed cultivation is at an early stage with seaweed being used to produce biomethane as well as for food, cosmetics and healthcare.

As with offshore renewables, our role is to lease seabed once operators have been granted planning permission and other necessary consents, and to invest in research & development that enhances sustainability and explores new areas of potential growth. An important part of what we do is enabling through helping in 'interactions management' i.e. leasing in a way that protects and respects other users of the marine environment.

THE SECTOR¹²



12,000

Supports nearly 12,000 FTE jobs



£620m

Contributes over £620m in gross value added



£640m

Production is worth £670m (farm gate prices), including £10m for shellfish

OUR ACTIVITY



550

550 lease agreements for fish and seaweed



870

Approx. 870 sites, largely on the west and north coast



10%

Rent discounted by 10% on Shetland, Orkney and the Western Isles

¹² See www.scottishsalmon.co.uk/wp-content/uploads/2016/10/aquaculture-growth-to-2030.pdf which states that that industry may contribute £3.6bn by 2030. Projected potential is also addressed in HIE / Marine Scotland's report on the value of aquaculture to Scotland www.hie.co.uk/regional-information/economic-reports-and-research/archive/value-of-aquaculture-2017.html

Context, policy and stakeholders

- Aquaculture is a critical part of the economic and social fabric of the Highlands & Islands, and exports of farmed salmon and shellfish bring quality and provenance to consumers around the globe.
 - The sector benefits from clear government support for its development ambitions.
 - There are challenges however, including biological and environmental pressures (e.g. sea lice in farmed salmon, visual impact of farms, water quality for shellfish), an arguably complex regulatory regime and, for shellfish, access to development finance.
 - Brexit-related uncertainties include the possibility of trading tariffs and the strength of the sterling.
 - Aquaculture is subject to Scotland's National Marine Plan, local authorities' development plans as well as the objectives of Scotland Food & Drink's Aquaculture 2030 Vision project.
- Key stakeholders include 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.

| STRATEGIC OBJECTIVE | STRATEGY | KPI / TARGET |
|---|--|--|
| 1. Contribute to Scotland's economic, social and environmental wellbeing | Work with stakeholders including Marine Scotland and communities on collaborative research studies, pilots and novel leasing options, with the aim of improving economically and environmentally sustainable development | Initiate and support collaborative interactions projects including wild / farmed fish co-existence for salmon (working with Fisheries Management Scotland and Marine Scotland among others) and research into ways to improve commercial viability of shellfish and seaweed cultivation; participation in SARF (Scottish Aquaculture Research Forum) to support R&D (e.g. to shorten pen cycle) (30) |
| 2. Grow revenue and enhance capital value of the estate | Make timely and informed decisions; support development through productive relationships with tenants and an innovative approach to leasing | Meet or exceed revenue targets (31) |
| | Provide certainty where possible by retaining independent five-yearly rent reviews with objective expert assessment that includes financial and socio-economic benefits Continue strong presence in policy forums and close ties with tenants and with local authority planning departments | Measured through tenant survey and stakeholder research (to include extent to which we have provided certainty wherever possible to help buffer industry against Brexit-related uncertainties) (32) |
| | Encourage business diversification, economic stewardship and collaborative enterprise to build resilience into sector Focus support on further development opportunities for shellfish, marine trout and seaweed cultivation sectors to build diversity and resilience into the Scottish aquaculture sector | Support for projects designed to boost sustainable sector growth, including initiatives that strengthen industry's social licence to operate (33) Range of R&D projects supported e.g. using finfish hatchery sludge to grow seaweed for biogas (34) |
| 3. Develop local decision-making and success, with a particular focus on communities and coastal local authorities | Participate in and support policy forums alongside innovative leasing and option agreements that offer assurance to communities on development proposals in their areas e.g. through Special Purpose Vehicles Encourage tenants to adopt a stewardship approach to local marine stakeholder interests | Develop and publicise suite of area-wide options for producer companies, stakeholders and local communities that can be underpinned by lease agreements (35) |

RURAL



4.3 Rural

Introduction

On the four rural estates, we lease land, property and grant rights to encourage a range of uses, helping to create a secure economic future for the communities we work with. This includes supporting farmers in building diverse and resilient businesses, investing in public access and educational work to attract visitors as well as conservation projects to increase biodiversity.

We are committed to supporting farming and, as part of this commitment, we work closely with tenants to ensure that buildings and other units are modern and fit-for-purpose. The need for capital to fund this ongoing investment in the rural assets is a key consideration for us.

As well as farms, rural tenancies cover residential and commercial property, sporting rights, minerals, and development land. Our 5000ha of woodland is managed in-hand for multiple use purposes and is certified in accordance with the UK Woodland Assurance Standard.

We want to remain a champion of integrated, multiple-use land management. Glenlivet – located in the UK's largest national park – showcases how farming, conservation, tourism and sporting can work side-by-side and help regenerate rural communities. Our ongoing membership of the East Cairngorms Moorland Partnership demonstrates our commitment to working with others to deliver sustainable upland management.

IN SCOTLAND



67,000

67,000 people directly employed in agriculture¹³



51,000

51,000 registered small and medium-sized enterprises are in rural areas



18%

Woodlands and forests cover 18% land

OUR ACTIVITY



650

Over 650 tenancies (covering agricultural, residential, angling rights and other activities)



13,000

Over 350 pupils and 13,000 cyclists visit Glenlivet each year to learn, explore and exercise



£2.34m

£2.34m secured by us and other partners from HLF

¹³ Source: NFUS

Context, policy and stakeholders

- The diversity of the rural estate provides a range of opportunities for growth – and legislative and policy change also provides challenges in planning for the long and short-term.
- The uncertainty surrounding the impact of Brexit and other factors mean there is limited potential rental growth from agricultural land.
- Aligning with the 2017-18 Programme for Government, encouraging diversification and investment by tenants, working to build resilient farm businesses, identifying new income streams and enhancing natural capital, are priorities.
- We work closely with a wide range of partners and stakeholders to drive economic, social and environmental value in the rural economy and to act as a driver for innovation, helping to generate prosperity and success for rural businesses and communities. This includes working with the Tenant Farming Commissioner on implementing initiatives such as the amnesty on tenants' improvements and the review of agents.

Stakeholders include tenants, local communities, development trusts, local authorities, industry bodies and farmers' unions, FCS (Forestry Commission Scotland) and SLC, SNH (Scottish Natural Heritage), HLF (Heritage Lottery Fund), HIE (Highlands and Islands Enterprise) and SLE (Scottish Land & Estates), national parks and District Salmon Fishery Boards.

Work to deliver local asset management pilots is covered in Section 4.1. Here we outline other activity aimed at delivering investment in properties and supporting vibrant rural communities more generally.

| STRATEGIC OBJECTIVE | STRATEGY | KPI / TARGET |
|---|--|---|
| 1. Contribute to Scotland's economic, social and environmental wellbeing | Invest in our assets to support more sustainable business development and diversification to ensure the long-term prosperity of communities on the rural estates | Direct investment in development planning, property repairs and maintenance, new buildings, forestry restocking, recreational infrastructure etc in line annual budgets (36) |
| | Trial Natural Capital Protocol with partners, continuing to develop sustainable management of Scotland's natural assets | Work with tenants to complete phase 1 of trial (37) |
| | Manage lease restructures to optimise revenue returns and local economic, social and environmental value | KPIs for assessing non-commercial value in decision-making published 2018/19 (38) |
| | Develop opportunities for supporting new entrants into farming and business progression for existing tenants; contributing to developing the Farming Opportunities for New Entrants plan | Facilitate at least one new entrant through a lease restructuring in line with the Women in Farming and the Agriculture Sector report's key recommendations (39) Facilitate surrenders as opportunities arise to release tenancies for restructuring / sale / tenant business progression (40) |
| | Seek to develop integrated agro-forestry scheme/s | Minimum of one scheme in place (41) |
| | Plant new woodland (and encourage farms tenants to), supporting Scottish Government target of 10,000 new hectares each year | Minimum 100 hectares new in-hand woodland established (42) |
| | Continue to support the roll-out of broadband and upgrading of the Emergency Services Network in rural Scotland, working with tenants to support telecommunications operators' access to and use of land | Tenants' activities co-existing with telecommunication operators use of suitable land (43) |
| | Work with local communities including leasing land or rights to assist their development aims, maintain local access to rod & line angling at reasonable rates providing flexibility and support to clubs at a challenging time for the angling sector | Maintain or increase numbers of stretches of river let to angling associations to fish (44) |

| STRATEGIC OBJECTIVE | STRATEGY | KPI / TARGET |
|---|--|---|
| 2. Grow revenue and enhance capital value of the estate | Implement investment strategy including capital funds for agricultural and residential buildings (new buildings, infrastructure, development and lease restructuring) | Investment in line with investment strategy and annual budgets (45) |
| | Raise capital by selling non-core assets | Complete sales in line with budget target (46) |
| | Apply best practice standards to asset management in accordance with established guidelines, working with others to support and embed best practice in our tenants' businesses | Knowledge transfer events / demonstration events (47) |
| | Explore opportunities to assist & support mineral companies to sustainably develop mineral resources, including gold & silver, with the associated local economic and social benefits for Scotland | Two new leases in place for mineral operations on the rural estates (48) |
| 3. Develop local decision-making and success, with a particular focus on communities and coastal local authorities | Partnership initiatives that deliver inward investment into estate infrastructure and support sustainable land use and rural development | Delivery of £2.34m HLF Landscape Partnership Project at Glenlivet (49) |
| | Inform and engage tenants and stakeholders in strategic planning through direct engagement and via partners (e.g. regular meetings with NFUS (National Farmers Union Scotland) / tenant farmers' groups), consult on annual business plans, roll-out tenant service and engagement charters to ensure effective collaboration with tenants and communities | Positive feedback from stakeholders; demonstrate engagement has influenced decision-making (50) Programme of support provided e.g. workshops, events, ongoing advice) with positive feedback from tenants (measured through independent research / surveys) (51) |
| | Work with agricultural tenants to plan and prepare for the impacts of Brexit | |
| | Work proactively with agricultural tenants to ensure improvements records are up to date in line with the government amnesty | Completion of all improvement records during the period of the amnesty (52) |

COASTAL



4.4 Coastal

Introduction

Our team manages around half of the foreshore and most of the seabed out to the 12-nautical mile limit. We give occupation rights to Crown foreshore and seabed for projects providing infrastructure, e.g. ports and harbours, marinas, bridges, cables, pipes and moorings, as well as dredging.

We help coastal communities manage their local marine resource e.g. local authority regulating leases and mooring associations, and we support marine leisure tourism by providing information, knowledge and expertise at a local and national level.

The coastal assets have a high number of low value dealings. Many of these agreements are with private individuals, mostly for boat moorings and private outfalls. Our role in enabling local moorings management is significant. There are over 120 associations which our agents support. In particular, our three dedicated Community Marine Officers (agents who represent Crown Estate Scotland in communities around the west and north coast) provide local expertise and advice.

Though there are limited opportunities for generating capital, there is a resilient ports sector with major investment projects underway.

IN SCOTLAND



£1.9bn

Ports generate £1.9bn¹⁴ pa and employ 31,500 FTE jobs



£130m

Marine leisure tourism generates £130m pa¹⁵ and supports 2700 FTE jobs



31,000

Ports employ 31,500 FTE jobs

OUR ACTIVITY



2300

1400 tenants with 2300 agreements



21

21 tenant visits / meetings by agents every month



80%

Approx. 80% of rents are less than £500pa, 5% are above £5000pa

Context, policy and stakeholders

A key consideration in our work in the 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 for us are ports and marine leisure tourism.

Ports in Scotland handle 71m tonnes of cargo (15% of the UK total); over 32m tons of oil and gas products; 8m passengers; and 2.6m vehicles. The fishing industry in Scotland is also by far the largest in the UK. Landings at just three ports (Peterhead, Lerwick, and Fraserburgh) account for just over 50% of all landings by UK vessels.

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 high quality, value for money and memorable customer experience."¹⁶ The key challenge is the availability of finance to provide the infrastructure required. We will continue our support of marine and coastal tourism initiatives and the 'Awakening the Giant' strategy.

Stakeholders include 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.

| STRATEGIC OBJECTIVE | STRATEGY | KPI / TARGET |
|---|--|---|
| 1. Contribute to Scotland's economic, social and environmental wellbeing | Develop funding partnership to secure investment for the long-term development of Rhu Marina to facilitate local economic growth | Feasibility and other studies completed to enable funding package to be secured (53) |
| | Active engagement by our agents to identify and pursue new initiatives with and for coastal communities. Continue to fund KIMO UK's Fishing for Litter project to tackle marine litter. ¹⁷ Develop partnerships for delivering marine stewardship initiatives to support sustainable use of the marine environment | Average of four new initiatives underway / piloted each year (54) At least two new initiatives in place (55) |
| 2. Grow revenue and enhance capital value of the estate | Undertake independent review of coastal moorings management and mooring fees, informed by tenant feedback | Review complete and work started to implement agreed changes (56) |
| 3. Develop local decision-making and success, with a particular focus on communities and coastal local authorities | Strengthen partnership working with harbour authorities and trusts | Lease in place to pilot devolved control to harbour authority (57) |
| | Continue to encourage and support formation of voluntary Moorings Associations (currently circa 120 in number), enabling day-to-day management of facilities to communities. Consult associations through tenant survey and moorings review and develop bespoke guide to setting up and running associations | Maintain or increase number of mooring associations (58) |

¹⁶ Scottish Marine Tourism Strategy

¹⁷ KIMO is the Local Authorities International Environmental Organisation, an association of 75 coastal local authorities from 10 countries and crown dependencies. KIMO UK represents the network of authorities in the United Kingdom.

URBAN



4.5 Urban

Introduction

We have one mixed-use commercial property at 39-41 Edinburgh's George St, in the prime 'Golden Rectangle'. This is valued at £15m and provides a significant contribution to our turnover and net profit. We recently completed a refurbishment of the public areas and of the only vacant office suite, to prepare it for re-letting at optimum rent.

Due to the attractive returns and relatively low property management requirements, urban property (acquisition and redevelopment) is a candidate for further investment and development. This will be explored as we develop our investment strategy.

Context, policy and stakeholders

- Urban property market continues to be influenced by economic uncertainty.
- Office market demand is steady in Edinburgh and Glasgow, although last year's growth in the retail sector has not continued into 2017.
- The Scottish Government's Economic Strategy and Agenda for Cities make a clear commitment to supporting investment in cities and their regions.
- 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.

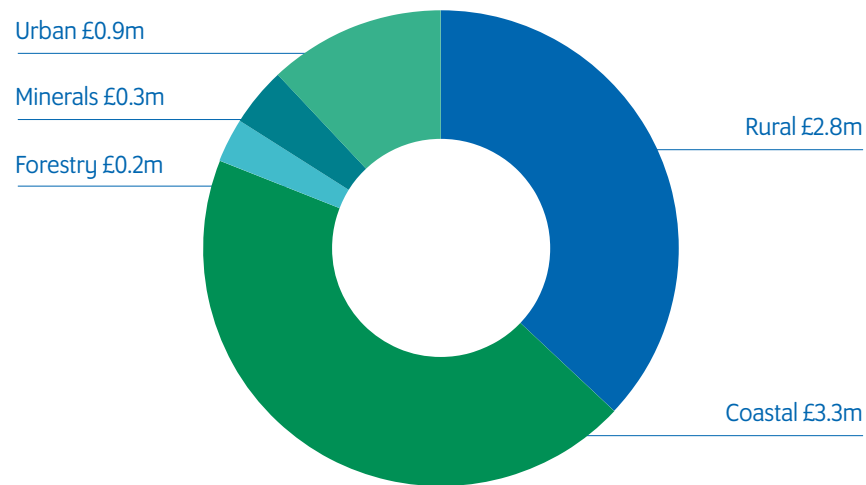
Stakeholders include tenants, local authorities, business improvement districts and other organisations such as Chambers of Commerce.

| STRATEGIC OBJECTIVE | STRATEGY | KPI / TARGET |
|---|---|--|
| 1. Contribute to Scotland's economic, social and environmental wellbeing | Explore opportunities for investment in urban property, supporting Scottish Government's aim of attracting investment in cities | Alignment of investment strategy with local economic development policies (58) |
| 2. Grow revenue and enhance capital value of the estate | Maximise return from managing assets to enhance value | George Street is fully tenanted with optimum rentals (59) |
| | Identify, scope and, where appropriate, make acquisitions | To be published 2018/19 (60) |
| 3. Develop local decision-making and success, with a particular focus on communities and coastal local authorities | Ensure that developers and managers of property we have invested in follow good practice in public consultation | Evidence of meaningful consultations where appropriate (61) |

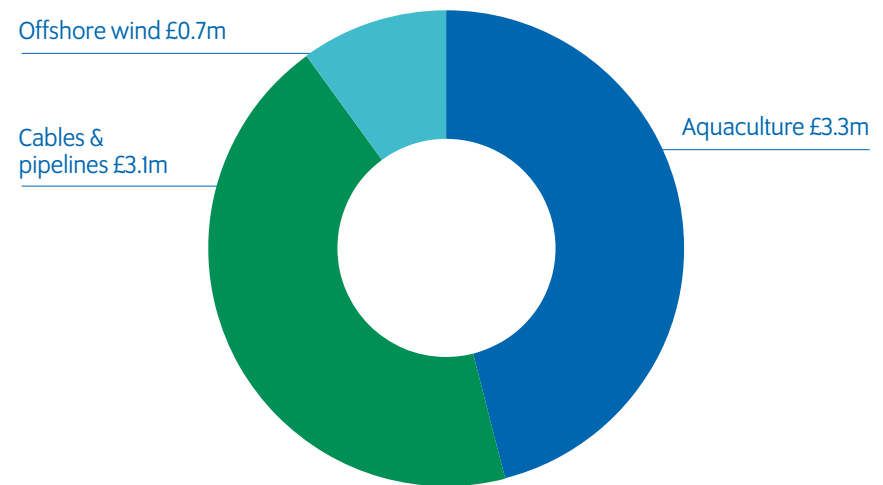
5 Summary budget and commentary

Here we provide our revenue and capital budget for 2017-18. Budgets for 2018-19 and 2019-20 will be published with our annual business plans.

GROSS REVENUE £14.7M



Rural, Coastal, Urban



Marine (Energy, Infrastructure and Aquaculture)

| Gross Revenue | £m |
|---|-------------|
| Rural, Coastal & Urban | 7.6 |
| Marine (Energy, Infrastructure & Aquaculture) | 7.1 |
| | 14.7 |
| Direct Costs | |
| Rural, Coastal & Urban | 3.4 |
| Marine (Energy, Infrastructure & Aquaculture) | 0.3 |
| Indirect Costs | 3.5 |
| Net operating profit before transfers to capital | 7.5 |
| Transfers to capital account | 1.6 |
| Profit | 5.9 |

| Capital Receipts | £m |
|---|-------------|
| Rural, Coastal & Urban | 10.2 |
| Marine (Energy, Infrastructure & Aquaculture) | 0.2 |
| | 10.4 |
| Capital Expenditure | |
| Rural, Coastal & Urban | 6.3 |
| Marine (Energy, Infrastructure & Aquaculture) | 1.0 |
| Admin | 0.3 |
| | 7.6 |
| Transfers from revenue to capital | 1.6 |
| Net Capital Funds | 4.4 |

- Income from the properties, after the deduction of all operating costs and permissible transfers to the capital account, is payable to Scottish Government. This figure is shown above as profit.¹⁸
- Some indirect costs are new or will have increased and it will not be until the 2017-18 figures are finalised that we will have a full appreciation of revenue expenditure requirements.
- Direct costs include maintenance, repairs, managing agents and other costs related to the land and property for which we are responsible.

- We need to generate capital funds to enable investment and growth. We therefore sell assets at the appropriate times to be able to buy, invest and develop.
- Planned capital expenditure in 2017-18 includes improvements to rural tenanted properties (under our lease obligations to provide suitable buildings and fixed equipment), development projects in offshore renewables and improvements to coastal assets.
- Taking into account transfers from revenue to capital, £4.4m of funds will be available for investment by end 2017-18.

¹⁸ The legislation which created Crown Estate Scotland (Interim Management) (see 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 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.

6 Good governance

We operate under a Framework Document¹⁹ drawn up by the Scottish Government. This sets out our:

- Functions, duties and powers
- Aims, objectives and targets
- Responsibilities and accountability, including our relationship with Scottish Government
- Plans, budgets and controls
- External accountability arrangements
- Staff management arrangements
- Certain aspects of our financial framework

6.1 Financial sustainability and management

As a net contributing body, we distribute our profits to Scottish Government.

Capital (raised from property sales or other transactions) is reinvested in assets that will generate income and grow value in the future, supporting Scottish economic growth. We also spend capital complying with our lease obligations and in supporting sectors through, for example, research and sustainability projects. This ability to cross-subsidise – funding growth / investments in one part of the business by generating income in others – is critical. Our approach to sales of agricultural units specifically is set out in our farm sales framework.²⁰

Our investment strategy, currently being developed, will set out how we are aiming to develop the estate in areas such as offshore wind energy, rural land and buildings, aquaculture (finfish, shellfish, seaweed) and urban commercial property. We will continue to invest, for example, in offshore renewables and our rural estates, including agricultural units.

The Board has established an Audit and Risk Committee to ensure the highest standards of financial, risk and performance management. Our 2017-18 budget and detail on how we treat revenue and capital is in Section 5.

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

6.2 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.

¹⁹ Found at www.crownestatescotland.com/maps-and-publications

²⁰ Our farm sales framework (interim) can be found in the Farming & Forestry section at www.crownestatescotland.com/maps-and-publications

Systems are in place – and will be kept under review – to ensure we function efficiently and meet compliance and statutory requirements. While we are incurring additional costs by operating on a standalone basis, we are also reviewing direct and indirect expenditure to identify potential efficiencies and cost-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.

Our annual accounts will include a Governance Statement setting out our internal control structure and how we manage resources.

6.3 Managing risk and opportunity

To achieve our vision, goals and strategic objectives, we need an effective risk management framework.

Risk management is important to 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.

Crown Estate Scotland as a business is not averse to taking risk. 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 how to take appropriate risks in a controlled and measured manner.

We will embed 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
- Ensuring a clear and consistent understanding of our risk appetite across the business

Risk management roles and responsibilities

Primary responsibility for risk management sits with the Board and the Chief Executive (in the role as Accountable Officer). The Audit and Risk Committee supports in a number of ways, e.g. by reviewing the Risk Register and ensuring escalation procedures are followed. Although primary responsibility sits with the Board and the Chief Executive, it is the role of the senior management team to implement and take responsibility for risk management on a day-to-day basis.

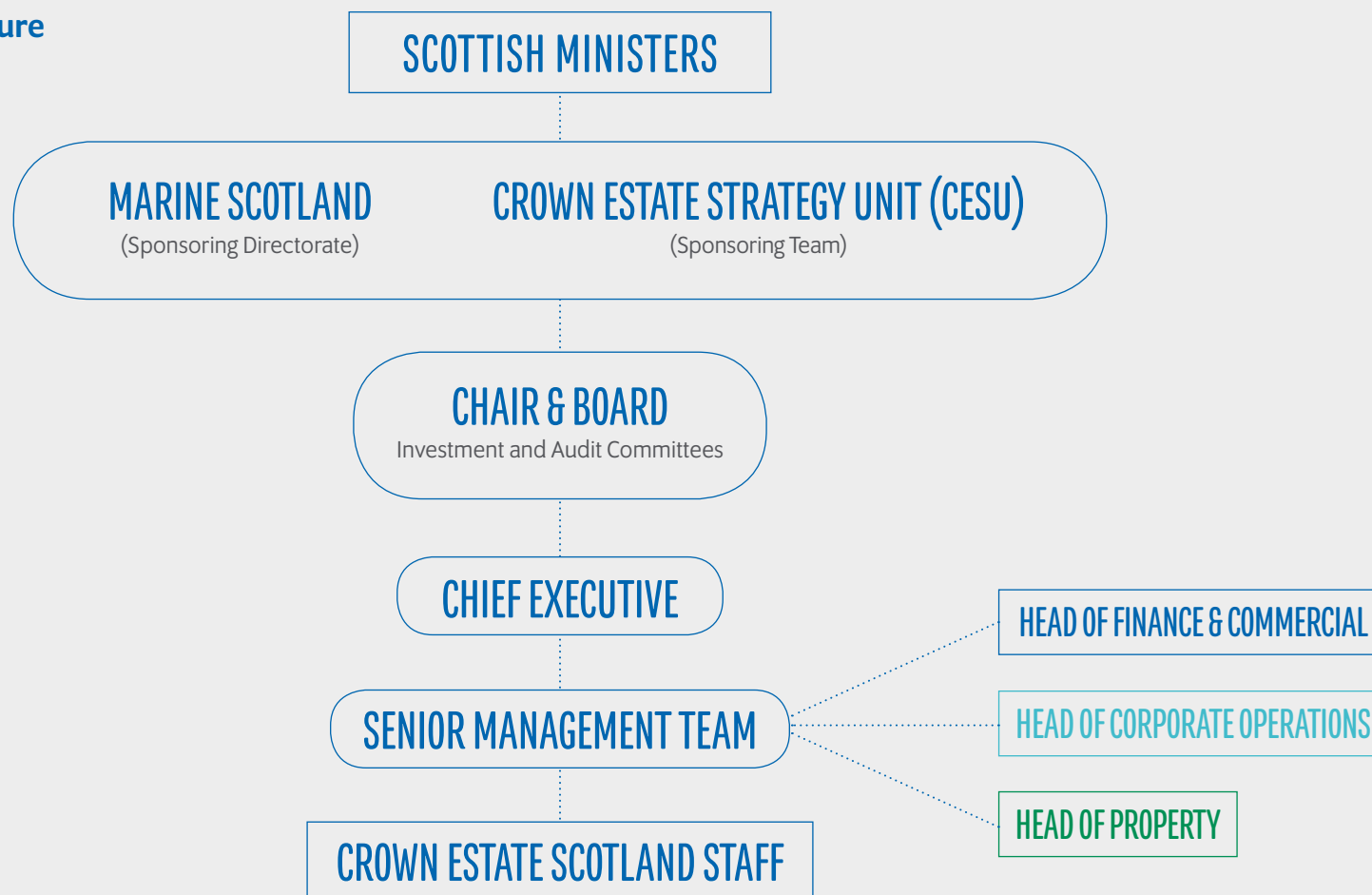
ANNEXES



7 Annexes

Annex 1

Governance Structure



Annex 2

Hierarchy of plans



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