



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

## Annual Report and Accounts to 31 March 2020



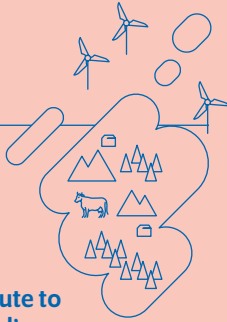
Presented to the Scottish Parliament in pursuance of Section 2 of the Crown Estate Act 1961, amended by the Scotland Act 2016, Chapter 11, Part 4, Section 36.

# We invest in property, natural resources and people to generate lasting value for Scotland

## OUR 2017-20 STRATEGIC OBJECTIVES

1.

Contribute to Scotland's economic, social and environmental well-being



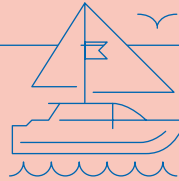
2.

Grow revenue and enhance capital value of the estate



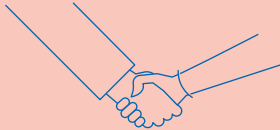
3.

Develop local decision-making and success, with a particular focus on communities and coastal local authorities



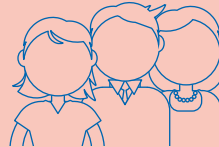
4.

Build confidence and trust in the organisation

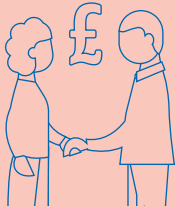


5.

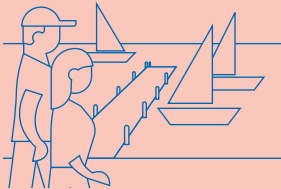
Develop and deploy our people's expertise to deliver success



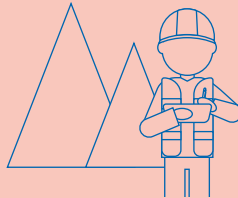
## OUR ROLES



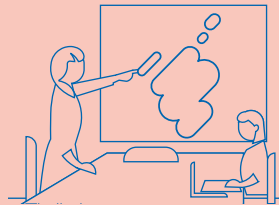
Investor



Enabler



Asset manager



Coordinator

# Contents

<b>1. Overview</b>	<b>4</b>
1.1 Statement from the Chief Executive	4
1.2 Who we are and what we do	7
1.3 Forward-look for 2020-21 and beyond	12
1.4 2019-20 performance summary	18
<b>2. Performance analysis</b>	<b>21</b>
2.1 Uncertainties that may impact performance	24
2.2 Overview of financial performance	25
2.3 Non-financial information	29
<b>3. Governance</b>	<b>36</b>
3.1 Members' Report	36
3.2 Statement of Accountable Officer's Responsibilities	36
3.3 Governance Statement	37
3.4 Remuneration and Staff Report	40
3.5 Parliamentary Accountability and Audit Report	43
<b>4. Financial statements</b>	<b>45</b>
4.1 Independent Auditor's Report	45
4.2 Statements of Comprehensive Income	48
4.3 Statement of financial position	49
4.4 Cash Flow Statement	50
4.5 Statement of changes in capital and reserves	51
4.6 Notes to the financial statements	52
<b>Appendices</b>	<b>68</b>
Appendix 1 – Accounts direction	68

# Introduction

Welcome to Crown Estate Scotland's third annual report, the last covering our 2017-20 Corporate Plan reporting period.

Our work across seabed, coastline, rural estates and more, spans key sectors including renewable energy, aquaculture and farming, and ports & harbours, impacting business and communities across the country.

As global challenges relating to climate change, wellbeing and COVID-19 intensify, we stand ready to work with partners to ensure the Scottish Crown Estate delivers sustainable development that benefits all.

In this report we outline what we delivered in 2019-20 and some of the opportunities and challenges that lie ahead.

# 1. Overview



# Overview

In this section we summarise Crown Estate Scotland's purpose and activities. We also look at key risks and issues facing the organisation and give a summary of performance in 2019-20.

## 1.1 Statement from the Chief Executive

I write this foreword in unusual circumstances.

In March 2020, like so many organisations, Crown Estate Scotland responded swiftly to the COVID-19 pandemic by moving to home working and digital ways of doing business.

I'd like to pay tribute to colleagues who took this major disruption in their stride and have offered unstinting commitment to continuing the work of Crown Estate Scotland. I would also like to thank our tenants, managing agents and service providers for their cooperation and support during these difficult times.

Our ability to achieve business continuity in these circumstances gives an indication of Crown Estate Scotland's

growing resilience. 2019-20 – Crown Estate Scotland's third year of operating – saw us take major steps forward in being established as a fully-fledged Scottish public body.

We concluded a major review of staff pay and conditions and implemented a new pay and grading structure.

In collaboration with staff, we developed a new performance management framework focusing on the skills and capabilities we will need to deliver our ambitious 2020-23 Corporate Plan. We also recruited new roles to strengthen our capability in offshore renewables, procurement, aquaculture, communications, rural and coastal property, built development, planning and finance.

“

## We have been developing our approach to balance market value with wider contributions to sustainable development.

With support from Scottish Ministers, Crown Estate Scotland is expanding its vision of what the Scottish Crown Estate can deliver for Scotland, focusing around four roles: Asset Manager, Enabler, Investor and Coordinator.

In our Asset Manager role, we're pleased with the feedback from a survey of coastal tenants. Compared to results reported in 2017, the rating of all aspects of Crown Estate Scotland service have increased, including on performance, responsiveness, efficiency, communication, openness and understanding tenants needs (see p24 for more).

For the rural estate we worked with tenant representatives to create an agricultural re-lettings framework that lays out how we will go about offering new tenancies and identifying opportunities for new entrants.

More widely, we have been developing our approach to the provisions in the Scottish Crown Estate Act 2019 to balance market value with wider contributions to sustainable development.

A key focus for the year has been the development of the offshore wind ScotWind Leasing round, the first Scottish leasing opportunity for 10 years.

Developed to align with Scottish Government's Sectoral Marine Plan for Offshore Wind Energy, ScotWind will really help Scotland to create a net zero emissions economy. And by securing a supply chain statement from applicants which will be crystallised into contracts, it is also set to create green jobs and support the just transition.

This year we also started a fundamental review of our aquaculture leasing covering the value share secured for the public purse, how we may embed sustainability into leases, and ways of offering development opportunities that best fit with the emerging approach to marine planning.

### £12m

to public finances

### £4m

above target

### £38.6m

capital funds

For our Enabler role, we agreed financial provisions with the Scottish Government so we can support and help develop the sectors and communities associated with the Scottish Crown Estate.

The first project supported under this arrangement was a wild Atlantic salmon smolt survey in Scottish rivers, recognising that good information is needed to inform wild salmon conservation and management of interactions with farmed salmon.

We've also developed plans for a Sustainable Communities Fund to be launched in 2020-21.

This fund complements our local management pilots with the three island authorities, Galston Estate Trust and the Forth District Salmon Fisheries Board, which are an early part of our Coordinator role.

Each of these pilots are now nearing implementation. Given provisions in the Scottish Crown Estate Act 2019 ('the Act') for potential management transfer and delegation for parts of the Scottish Crown Estate, we are keen to share learnings from these pilots.

We are expanding our role as an Investor. This year has been focused on investing in our farm buildings and infrastructure. Guided by our comprehensive 2018-19 condition survey of rural properties, we invested £1.8m capital plus £1.3m revenue.

The consultation we held on the new corporate plan included a draft investment strategy which would see a significant expansion in our investment in the blue economy and in buildings and places, to deliver lasting value. We have been working to build up an investment fund, which stood at £38.6m at the end of 2019-20.

We've also had a successful year for revenue income. Whilst our cost base has undergone a planned increase as we establish as a fully functioning public body and broaden our role, income has grown faster enabling us to return £12m to the Scottish Government for public spending and distribution to coastal local authorities.

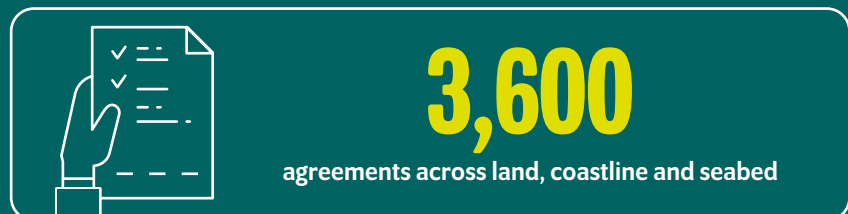
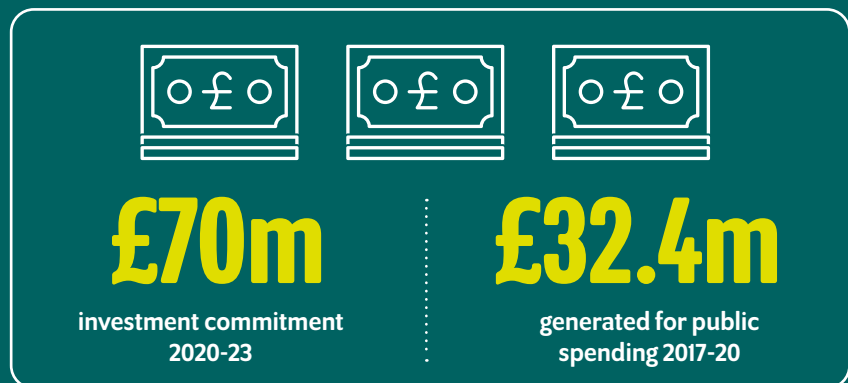
In the months ahead we will start assessing the potential impact of COVID-19 on the delivery of the 2020-23 Corporate Plan. We will take a flexible approach, listening to tenants and keeping key aspects of the business under review.

As 2020-21 and beyond looks set to bring new challenges for business and for communities, we're proud of our ongoing financial, socio-economic and environmental contribution to Scotland.



**Simon Hodge, Chief Executive,  
Crown Estate Scotland**  
02 September 2020

# Crown Estate Scotland at a glance





## 1.2 Who we are and what we do

Crown Estate Scotland manages assets – seabed, coastline, rural estates and more – that stretch the length and breadth of the country, making up the Scottish Crown Estate.

The Estate is a unique mix of land, property and rights, with a total property value at March 2020 of £426.2m. It includes ancient rights held by The Crown (e.g. wild salmon fishing) as well historically acquired property (e.g. Glenlivet Estate). We manage the assets under four distinct categories:

- Marine (Aquaculture; Energy & Infrastructure)
- Coastal
- Rural Land
- Buildings & Places

Our Framework Document sets out our functions, responsibilities and powers.

Ownership of the Estate lies with the Monarch and management responsibility sits with Scottish Ministers, who in turn delegate to Crown Estate Scotland.

Our revenue profits are paid into the Scottish Consolidated Fund and contribute to the Scottish Government's public spending programme.

Crown Estate Scotland is a public corporation. Our commercial activity is under direct Government control and the Scottish Ministers appoint our Chair and Board members. We appoint staff (who are not civil servants) and we manage our own budget.

We are a net contributor to Scottish public funds, a status of which we are very proud – and we strive to continue growing our financial contribution alongside the wider value we deliver to society in Scotland.

### 1.2.1 Purpose and roles

Our core purpose is investing in property, natural resources and people to generate lasting value for Scotland.

This includes delivering excellent tenant service, seeking to enhance revenue and capital value and, ultimately, creating long-term social, environmental and economic benefit.

We want to help ensure families, businesses and communities can use the assets to live, work and thrive. Our work 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 work can be categorised into four roles. Detail on our 2017-20 strategic objectives and how our work in 2019-20 contributed to delivering them is in section 1.4.

### 1.2.2 Ways of working

Our success goes hand in hand with that of our tenants.

We support tenants in helping them realise their ambitions, be that a farmer who wants to diversify, a renewable energy developer needing seabed to test technology, or a port seeking to expand capacity.

Through this work, we help deliver wider social, environmental and economic value.

We also need to identify emerging opportunities that will deliver revenue and capital growth.

## OUR ROLES



### INVESTOR

Investing in, for example, property development, as well as building external partnerships and supporting staff.



### ENABLER

Empowering others by supporting local plans and projects, providing access to property and helping address barriers to sector growth.



### ASSET MANAGER

Careful management of leases and agreements, as well as direct management of forestry and mountain bike trails.



### COORDINATOR

Supporting other Scottish Crown Estate managers by, for example, coordinating spatial information.

At March 2020, we had 56 staff working across different parts of Scotland and we contract teams of managing agents to provide specialist knowledge and support in rural and coastal areas.

This model gives us flexibility and access to a wide range of expertise whilst helping manage costs.

Across our activity, we provide access to land and property in a way that is designed to:

- Ensure a plan-led approach, leasing in line with statutory plans (e.g. Local Development Plans, sectoral marine plans etc) whenever there is one in place. This helps ensure that our activity is aligned with stakeholder / community interests and reflects considerations related to the environment, equalities etc;

- Create new opportunities for people and organisations in the public, private and third sectors;
- Be open and transparent while respecting commercial confidentiality;
- Encourage diversity in terms of who uses land and property;
- Encourage innovation;
- Manage risk, particularly in relation to health & safety, and ensure that the integrity of assets is protected; and
- Deliver on our statutory duty to maintain and seek to enhance the value of and income from the Estate.

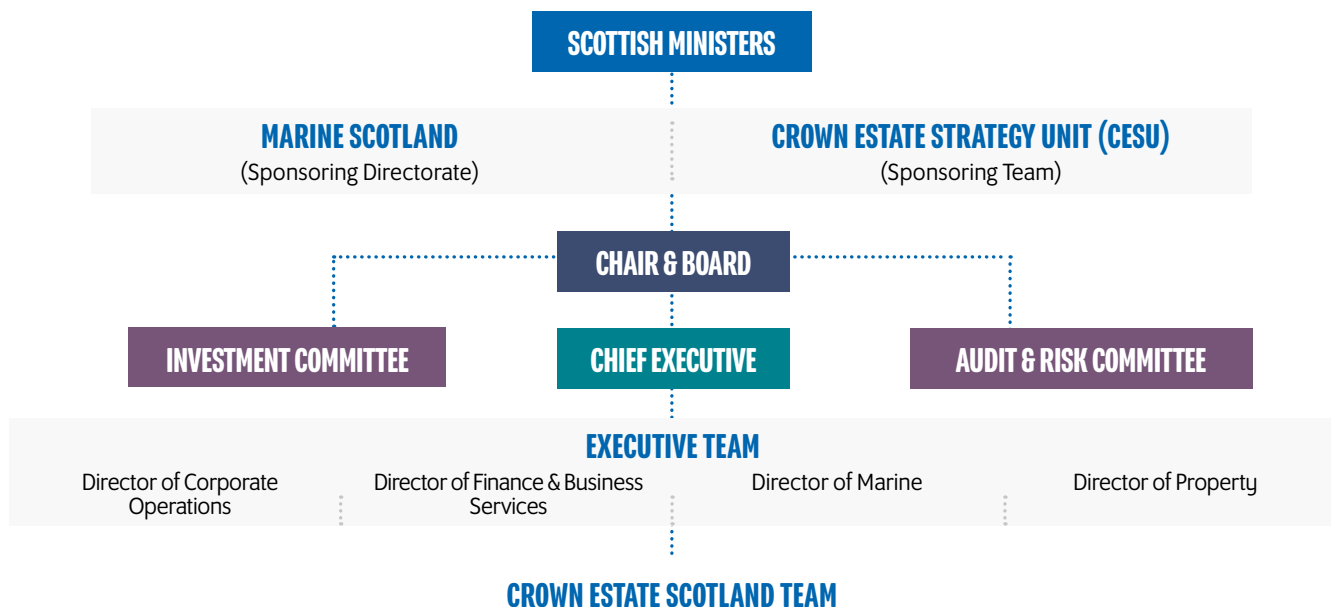
## Scottish Crown Estate Act 2019

The primary legislation governing management of the assets is the Scottish Crown Estate Act 2019 ('the Act').

### The Act

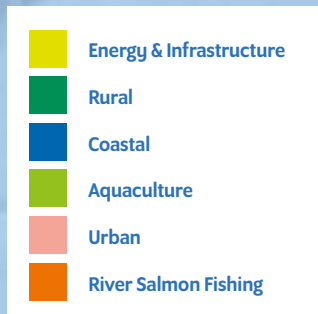
- Changed the organisation's name from Crown Estate Scotland (Interim Management) to Crown Estate Scotland with effect from 1 April 2020.
- Sets a duty on Scottish Ministers to develop a strategic management plan setting out Ministers' objectives, priorities and policies in relation to the management of the Scottish Crown Estate. All managers including Crown Estate Scotland are required to align their activities with this plan.
- Allows eligible bodies ('managers') (e.g. local authorities, harbour authorities, Scottish Ministers, other public bodies and community organisations), to take on responsibility for specific assets, potentially in partnership or with support from us (for instance, Crown Estate Scotland may act as coordinator of geospatial or financial information).
- Sets a duty on all managers, including Crown Estate Scotland, to maintain and seek to enhance income from and the value of the assets in a way that furthers sustainable development in Scotland, specifically economic development; regeneration; social wellbeing; and environmental wellbeing.
- Contains further provisions relating to managers' powers and duties, reporting, financial matters and compliance with Ministerial Directions. The Act therefore creates a new national framework to underpin a mix of national and local management of assets by different organisations and bodies.

## Illustration 1: Governance structure



## Illustration 2: Map

Credit: Esri, Garmin, GEBCO, NOAA NGDC, and other contributors.

**MARINE (ENERGY & INFRASTRUCTURE)****£230.4m**

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

**RURAL****£121m**

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

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 (not shown on map).

**COASTAL****£35.4m**

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

**MARINE (AQUACULTURE)****£26.5m**

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

**URBAN****£13.0m**

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



## Case study 1: Strengthening Scotland's supply chain

In 2020-21, Crown Estate Scotland will launch the first round of offshore wind leasing in Scottish seas for a decade. This will form an historic opportunity to harness Scotland's incredible natural resources and take a major stride towards a net zero future.

Scotland has a long and proud history of combining our maritime resources with engineering ingenuity. From shipbuilding on the Clyde to oil & gas in the North Sea, the waters that surround Scotland have always been at the heart of our economic progress.

Now, offshore wind offers the next big opportunity. We've already seen a glimpse of what can be achieved, with five major offshore wind farms generating significant amounts of clean green electricity and over 3,000 jobs created.<sup>1</sup>

Our new leasing process, ScotWind Leasing, will position Scotland as a world class investment destination for the projects we need to unlock more economic benefits for communities. 2019-20 saw us prepare ScotWind for launch by finalising the framework through which the leasing process will progress, as well as working with industry and government to develop measures to help Scottish offshore wind developments benefit from a vibrant supply chain.

In doing so, we believe ScotWind will support a just transition by stimulating supply chain development and placing Scottish offshore wind projects at the heart of Scotland's emerging net zero economy.

<sup>1</sup> 3,400 jobs according to Scottish Renewables:  
[www.scottishrenewables.com/our-industry/statistics](https://www.scottishrenewables.com/our-industry/statistics)





## 1.3 Forward-look for 2020-21 and beyond

Under the Act, Crown Estate Scotland has a duty to manage the assets in a way that promotes sustainable development and provides value beyond financial return.

Our 2020-23 Corporate Plan sets out five strategic objectives for the next three years:

1. Support the sustainable expansion of Scotland's blue economy, focusing on marine and coastal development
2. Invest in buildings and help create great places
3. Promote new sustainable ways of using natural resources to produce energy, food and other products
4. Involve people in how land, coastline and seabed are managed
5. Use our skills and knowledge to deliver financial success and help business and communities to thrive

2020-21 will see our team start to deliver on these objectives and contribute to post-COVID 19 economic recovery work being developed by Scottish Government: the launch of Scotland's first offshore wind leasing round in a decade, a Marine Tourism Fund and new grants to help communities tackle local challenges are just some examples of how we will help.

We will also start to implement our new investment strategy which aims to invest a total of £70m over three years

in the blue economy, buildings and places, natural resource innovation, capital expenditure needs on the farmed and forest estate, and more.

We will invest in our people, ensuring they can develop and apply their skills to deliver wider success. The recent growth in the number of staff – needed to deliver on our wider remit – will start to stabilize, and we'll build resilience in our systems and processes to support efficient and effective working. In 2020-21, we will move to a new office location in Edinburgh.

As at April 2020, the impact of COVID-19 is unclear but we know our revenue and valuation of assets will be impacted. On a wider point, businesses and communities will face challenges unlike those they have faced before. We will work with tenants to support them and ensure we are ready to respond, complementing support provided by government.

More than ever before, the wealth of opportunity linked to the Scottish Crown Estate around food and energy production, tourism, place-making, community empowerment and more, needs to be realized in a way that benefits all.

### 1.3.1 Key issues and risks that could affect the delivery of Crown Estate Scotland's 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 and profile across several different sectors).

The tables below provide a range of information including opportunities, operating environment and key risks related to specific parts of the business. Like many businesses, COVID-19 is now a key strategic risk for Crown Estate Scotland (see sections 2.1 and 3.3.6).

Risk mitigations include processes and controls, transferring liabilities, informing and analysing emerging policy and close working with tenants and 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.

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

	Operating environment including any current shifts and trends	Policies shaping performance	Stakeholders	Look ahead, opportunities to create value
<b>Rural land</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 has a strong bearing on capital planning.</p> <p>Forestry values continue to appreciate while river salmon fishings rents are impacted by reduced catches and continued decline of fish populations.</p>	Aligning with Scottish Government policy, our priorities include encouraging new entrants, diversification and investment by tenants, working to build resilient farm businesses, identifying new income streams (including renewable energy opportunities) and enhancing natural capital.	Tenants, communities, development trusts, local and planning authorities, industry bodies, farmers' unions, a range of public bodies and enterprise agencies.	<p>We want to remain a champion of integrated, multiple-use land management and how to link sustainable land management with sustainable built development.</p> <p>Our estates evidence integration, combining farming, residential, mineral operations, sporting and development land.</p> <p>The diversity of the rural estate provides a range of opportunities for growing value, particularly in relation to housing. This is balanced by some uncertainties in regard to Brexit (limiting potential rental growth in agriculture) and COVID-19 (impacting construction and the housing market).</p>
<b>Coastal</b>	<p>Scottish ports saw significant drops in tonnages of cargo between 2010 and 2016.</p> <p>Inward investment and diversification 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 and competition from other leisure sectors.</p>	Near-shore activities are framed largely by the National Planning Framework, Strategic Development Plans, Local Development Plans, National Marine Plan and the evolving Regional Marine Planning Partnerships. The National Tourism Strategy and the National Transport Strategy have a significant influence on the use of marine assets and new opportunities emerging include the decommissioning market and innovation in energy production.	Tenants, all users of the marine environment across a range of sectors, activities and industries, Scottish Government, economic development agencies, statutory nature conservation bodies, industry bodies, regulators, planning authorities and local authorities.	<p>The ports and oil &amp; gas sectors will continue to form a key part of the coastal portfolio, with a number of major investment projects completed, planned and underway.</p> <p>We'll support tourism initiatives that contribute to the 2020 Year of Coasts and Waters, as well as the industry strategy 'Awakening the Giant'.</p>

	Operating environment including any current shifts and trends	Policies shaping 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 – remains 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>	Government and economic development agencies, statutory nature conservation bodies, industry bodies, regulators and planning authorities, energy developers and local authorities.	<p>Accounts for over 50% of the value of the Scottish Crown Estate. Offshore wind revenue 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.</p> <p>Oil &amp; gas, which accounts for most of our offshore pipeline agreements, is subject to price fluctuations and is undergoing a longer-term structural change as the North Sea basin matures.</p> <p>As the need for further connectivity grows, there may be a demand for more electricity transmission and telecommunication cables.</p> <p>CO2 transport, utilisation and storage opportunities are being explored and underpinned by policy development. The scale and timing of activity will be influenced by the market models adopted, and 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 shellfish production, and in seaweed cultivation and harvesting as demand from the 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. We note the Scottish Parliament's 2018 <a href="#">report</a> on salmon farming and are working with government and industry to address some of the matters raised.</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 aquatic mammal conservation groups.	<p>Brexit-related uncertainties include the possibility of trading tariffs and the strength of sterling.</p> <p>There are challenges including biological and environmental pressures, 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>Buildings &amp; place</b>	<p>The urban property market continues to be influenced by economic uncertainty.</p> <p>Future work will include scoping other built development opportunities including potential regeneration projects.</p>	Ensuring commercial and residential accommodation helps create sustainable and desirable spaces, attracting businesses and consumers to locales, brings wider economic and social benefits.	Tenants, local authorities, and business improvement districts. As we other explore opportunities, we will engage with organisations such as housing associations and enterprise agencies.	<p>Due to the attractive returns and relatively low property management requirements, urban development is a potential candidate for further investment.</p> <p>We will also explore the opportunities for property development on the wider Estate and the alternatives for optimising wider value from our strategic landholdings.</p>



**Table 2: Key risks associated with specific parts of the business (Health & Safety is covered in Table 4).**

Asset	Description	Potential impact	Mitigation
<b>Rural land</b>	<p>Brexit and associated impacts on agricultural support affects tenant business viability.</p> <p>COVID-19 is a particular risk for tenants' tourism businesses, and therefore for Crown Estate Scotland too (see section 2.1 for more).</p>	<p>Significant impacts on tenant farmers leading to tenant defaults, a lack of husbandry and reduced revenue over many years.</p> <p>Potential for COVID-19 impact on the capital value of rural assets.</p>	<p>Deliver 2020-23 Corporate Plan commitments relating to:</p> <ul style="list-style-type: none"> <li>Helping to provide business planning support and advice to tenants.</li> <li>If necessary, looking for opportunities to restructure farm holdings into viable units.</li> <li>Creating opportunities to innovate with new models, demonstrator projects, etc.</li> </ul>
<b>Coastal</b>	Securing funding 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, related government policies and targets not reached, revenue and capital potential not realised.	<p>Ongoing 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 by committing to lease in accordance with Marine Scotland's forthcoming Sectoral Marine Plan for Offshore Wind Energy.</p>
<b>Marine – Aquaculture</b>	<p>Significant pest or disease impacting aquaculture production, sector development and rental income.</p> <p>COVID-19 impacts on shellfish as hospitality sector is impacted.</p>	<p>Large scale outbreak of fish pest or disease.</p> <p>Significant impacts on fish farmers leading to tenant defaults and reduced revenue over many years.</p> <p>Stock harvested but cannot be sold, placing financial pressure on operators.</p>	<p>Promote best practice and help fund research &amp; development.</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> <p>Discussions ongoing about potential temporary measures to accommodate stock that cannot be harvested.</p>
<b>Buildings &amp; place</b>	<p>Significant void periods following lease expiries and tenant break options.</p> <p>Sub-optimal investments.</p> <p>Development lifecycle risk.</p>	<p>Reduced revenue and failure to increase market value.</p> <p>Potential COVID-19 impacts on capital value.</p>	Exploring opportunities in line with 2020-23 Corporate Plan and investment strategy.







## Case study 2: Supporting Scotland's seafood success

Scotland's seafood sector is already world renowned, and our leasing role is vital to its continued success.

As custodians of the seabed we're always looking for new ways to support and enhance sustainable food production in Scottish waters.

Our 2017-18 first Critical Mass Study, conducted in partnership with the sector, looked at economic viability thresholds and concluded that there is a need for a clear route to establishing commercial scale activities.

In 2019-20, a follow-up study looked at how that can be done and has now provided a planning proposal for commercial scale mussel farming operation in the Firth of Clyde, based upon the critical business thresholds identified.

These vital learnings will now be used to inform and understand the scale that is needed in the future, as well as the type of locations which can best support such operations.

This will hopefully help Scottish shellfish continue to be real success story as a sustainable food and a source of employment in island and coastal communities.



## 1.4 2019-20 performance summary

Here we highlight some key activities with reference to the commitments in our 2019-20 Business Plan. These actions are all aligned with our 2017-20 Corporate Plan.

### 2017-20 Corporate Plan strategic objectives

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; and
5. Develop and deploy our people's expertise to deliver success.

#### 1.4.1 Corporate

- Raised £4.1m capital against target of £3.5m.
- Returned £12m revenue to Scottish Government against target of £8m.
- Completed a consultation on our 2020-23 Corporate Plan and related impact assessments. We also researched views of children and young people who gave us some incredibly valuable insights. The final plan, which includes new strategic objectives, was published on 1 April 2020.
- Conducted research on our engagement and performance with coastal and rural tenants, local authorities and MSPs (see p24 for more on coastal tenant feedback).
- Engaged with stakeholders to develop a Sustainable Communities Fund which will launch in 2020 Year of Coast and Waters.
- Implemented a new transparent pay and grading structure, working closely with our recognised trade union PCS. The structure has been fully accepted by the Scottish Government.
- Completed a review of IT infrastructure and resource to map out changes required to enhance resilience and productivity. A Senior IT Manager has been appointed to oversee future development of our systems.
- Completed a range of specific activities to further embed a positive H&S culture throughout the business (see Section 2.3.2 for more).
- Reviewed our future accommodation needs ahead of our Edinburgh office lease expiring in December 2020. We are on track to move to new accommodation at the end of 2020.
- Continued to progress land registration with 40% of rural and coastal assets now registered. A further 15% has been prepared for submission to Registers of Scotland.

- Worked with Scottish Government to ensure readiness for the commencement of the Scottish Crown Estate Act 2019, including publishing our 2020-23 Corporate Plan fully aligned with Ministers' Strategic Management Plan and developing new guidance addressing our new duties under the act.

**Business plan actions:** **1 - 17**

#### 1.4.2 Rural

- Invested £1.8m capital in new buildings and other fixed equipment on farms, estate infrastructure and improvements to residential property, bridges, water supplies and electrics (see p32 for more).
- Completed core restoration works at heritage sites, Blairfindy Castle and Scalan Seminary, in line with the Tomintoul and Glenlivet Landscape Partnership (TGLP) Plan, and identified observation areas to be developed in light of the estate's Dark Skies park status.
- Developed business progression for tenants, completing 54 scheduled rural re-lettings following lease expiries and facilitating tenancy surrenders to release land for restructures or development of existing tenancies.
- Facilitated new entrant to a farm tenancy through a competitive open market process with independent input
- Helped farming businesses to operate sustainably by continuing trials of natural capital, providing business planning support and hosting knowledge exchange events.
- Substantially progressed forestry restocking at Glenlivet, investing £120,000 capital in planting 110,000 trees.

**Business plan actions:** **37-43**

### 1.4.3 Coastal

- Consulted on priorities for the use of coastal assets with tenants (see case study on p24), stakeholders and children and young people.
- Developed three-year coastal framework (see annex 6 of our 2020-23 Corporate Plan).
- Explored investment opportunities, particularly with ports and harbours.
- Progressed voluntary registration and developed new support fund for communities (see 1.4.1 above).

**Business plan actions:** **33, 34, 36**

### 1.4.4 Energy & Infrastructure

- Developed new offshore wind leasing for Scotland, informed by feedback from industry, government and NGOs, with mechanisms to promote growth of Scottish supply chain. Originally expected to launch in 2019-20, ScotWind will now launch in 2020-21 (see p12 for more).
- We continue to support Scotland's efforts to grow the Blue Economy and decarbonise to achieve Net Zero targets. Latest projects around Carbon Capture, Utilisation and Storage (CCUS) include summarizing storage capability around Scotland and supporting the Scottish Cluster develop the Roadmap as part of the Industrial Strategy Challenge Fund project, managed by NECCUS.
- Completed a study of the additional value created by local energy systems for the communities they serve.
- Completed a study investigating future ports & harbours requirements for offshore wind.
- Updated our standard terms for pipeline agreements to reflect latest market conditions and future predictions, helping secure Best Value.
- Managed wave and tidal property right applications received throughout the year.
- Continued to manage our investment in tidal energy project MeyGen.

**Business plan actions:** **19-25**

### 1.4.5 Aquaculture

- Started preparations on a new facility to help operators scope opportunities closely aligned with marine planning, through our Planning and Engagement role.
- Developed future priorities, focusing on making best use of seabed, promoting high standards and sharing the financial benefits. These are reflected in our 2020-23 Corporate Plan.
- Contributed to the first phase of the upgrade of the National Aquaculture Database.
- Collaborated on the 'wild fish lice monitoring protocol'.
- Participated in Scottish Government-led review of regulatory regime for sustainable seaweed harvesting.
- Conducted a seaweed co-digestion project with a range of partners to explore how a value chain might be created for seaweed elements.
- Expanded our work to tackle marine litter, including the development of a pilot project in partnership with industry. We hope to launch this in 2020-21, depending on COVID-19 impacts.

**Business plan action no:** **26-32, 34**

### 1.4.6 Urban / Buildings & Place

- Scoped potential development opportunities on existing estate.

**Business plan action no:** **44-45**

### Work on business plan actions numbers 35, 36 and 39 continues into 2020-21. These are:

- Assessing options and master-planning for Rhu Marina;
- Establishing a ports' working group. Our engagement with the sector is ongoing as we explore investment opportunities in line with our 2020-23 Corporate Plan; and
- Promoting the use of our rural estates for physical and mental wellbeing. Work to date has focused on establishing working relations with relevant organisations.

## **2. Performance Analysis**

# Performance analysis

Our 2017-20 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 staff members' performance objectives.

In 2019-20, we developed a comprehensive assurance framework to identify and document assurance on key business functions and activities.

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

Below we illustrate delivery on some of the priority KPIs and targets.

**Table 3: Priority 2017-20 KPIs and targets**

Strategic objective	KPI	March 2020 target	How performance is tracked	Progress as at 31/03/20
<b>1. Contribute to Scotland's economic, social and environmental well-being</b>	Number of projects started under the Local Management Pilots Scheme	Three pilot projects started	Updates to Board on delivery of published <a href="#">scheme and timetable</a>	Five applicants are progressing a total of four projects. One is in Heads of Terms, with three other projects being progressed to meet the applicants' timescales. A draft monitoring and evaluation framework has been developed.
<b>2. Grow the revenue and enhance the capital value of the estate</b>	Revenue generated (2017-18 baseline) Total property value	Revenue increase £10m working capital fund established Total property value increased	Financial performance reporting framework including quarterly reporting to Board	2019-20 gross revenue £22m (cf. 2018-19 £19m) £38.6m capital funds held and £426.2m total property value (cf. 2018-19 £38.2m and £385.8m)
<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 above 75%, key coastal local authorities' / partners' satisfaction above 70%	Independent tenant and stakeholder surveys	2019-20 survey of coastal tenants showed 72% rate us at 7 or above for overall performance (10 is excellent and 0 poor), (cf. 2017-18 66%). See p24 for more. Local authority CEOs' favourability 43% in 2019 (cf. 2018 32%). <sup>2</sup>
<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	For coastal tenants and local authorities see 3 above Rural tenants survey shows mean satisfaction rating of 6.8 out of 10 (cf. 2017-18 6.3). <sup>3</sup> Favourability among MSPs 49% in 2019 (cf. 2018 44%), net favourability 45% in 2019 (cf. 2018 30%). <sup>4</sup>
<b>5. Develop and deploy our people's expertise to deliver success</b>	Staff engagement levels Staff retention levels Tenant satisfaction levels	Minimum 75% good-high engagement Maximum 10% unplanned turnover	Annual staff survey Quarterly reporting on staff turnover Tenant and stakeholder surveys	2019 staff survey shows employee satisfaction with their job and with Crown Estate Scotland as an employer was down 66% to 49% and 72% to 55% respectively. Action to address this is in section 2.3.1. Staff turnover 11% 2017-20. (8% 2019-20, 13% 2017-18 and 2018-19). <sup>5</sup> Tenants survey results as above.

<sup>2</sup> PA Advocacy interviewed 14 Chief Executives in April to June 2019.

<sup>3</sup> Research Resource surveyed agricultural and residential tenants in January and February 2020. 103 respondents replied (47% response rate).

<sup>4</sup> PA Advocacy interviewed 77 MSPs face-to-face in September and October 2019.

<sup>5</sup> Based on resignations. Does not include fixed term contracts ending or retirements.



## Case Study 3: Committed to coastal communities

Supporting our tenants and empowering the communities we work with is at the heart of what we do.

To inform our work, we regularly carry out research to allow tenants to voice their views and feedback on the service we provide.

Our 2019-20 survey of coastal tenants was completed by 285 people, a response rate of 21%. Regarding our overall performance, 72% respondents rated us at 7 or above (where 10 is excellent and 0 poor). This is an increase from 66% in 2017-18.

Nine out of 10 respondents who had direct dealings with our managing

agents rated their dealings with them favourable, with a rating of 7.6 and above across a range of questions asked.

Coastal tenants were also asked what they want us to focus on in the future. Protection of the coastline, access to the shore, sustainable development, and support for local communities came out as activities that tenants want to see positive action on.

In response, we're launching a Sustainable Communities Fund in 2020 The Year of Coasts and Waters.

In addition, marine litter projects, offshore wind environmental studies and research & development in sustainable aquaculture are all in our 2020-23 Corporate Plan.

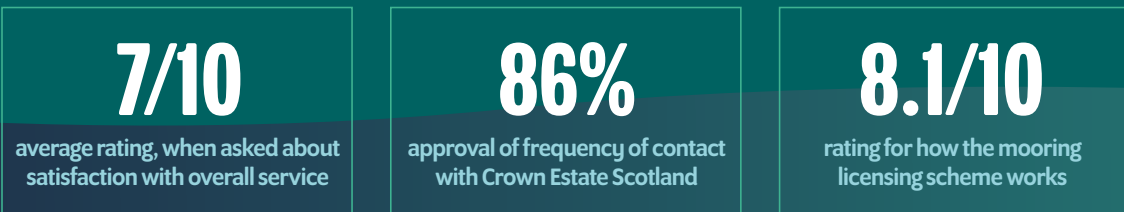
Thank you to all tenants who give us feedback about what we do and how we do it – your insights help shape our work and are hugely appreciated.



## Coastal tenants would like Crown Estate Scotland to:



## Their priorities for the coastline and seabed include:



## On rent, tenants were



## 2.1 Uncertainties that may impact performance

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

The approach to risk management that has been adopted is set out in sections 1.3.1 and 3.3.6 and reflects the guidance published by the Scottish Government.

As at April 2020, the short- and medium-term impacts of COVID-19 and Brexit on our tenants' businesses and the wider economy are key strategic risks and as such are being monitored by the Audit & Risk Committee. We will track sector indicators throughout 2020-21 to inform risk mitigation.

Crown Estate Scotland is an asset-based business with a capital-intensive rural estate and a growing offshore renewables asset-base.

Agricultural and aquaculture sectors are facing considerable uncertainty, while the offshore renewables sector relies on UK government policy and wider consenting and spatial factors.

Investor confidence in low carbon energy has been strengthened by recent legislation setting targets to transition to net zero by 2045 in Scotland and 2050 for UK as a whole.

The Local Management Pilots Scheme, launched in 2018, is an important part of wider changes in how we empower communities and work with local partners. Five applicants are now working with us under the Scheme.

The process will inform Scottish Ministers' approach to implementing provisions in the Act relating to management of specific Scottish Crown Estate assets being transferred or delegated to other eligible bodies.

We will work with government and others to support new managers.

We will also identify any likely impact of transfers or delegations on delivery of our 2020-23 Corporate Plan through our established monitoring and reporting mechanisms.

In line with the Act, in 2020-21 we are putting in place processes to assess proposals for below market value transactions where there is evidence that additional benefits will be generated, in line with the Act. We will monitor the impact of any agreed below market value transactions on our wider performance.

### Overview of risk management policy

Crown Estate Scotland maintains a well-established Risk Management Framework, overseen by the Audit & Risk Committee.

Crown Estate Scotland's approach to risk management aligns with the Scottish Public Finance Manual (SPFM). It is designed to:

- facilitate identification of risk priorities (in particular to identify the most significant risk issues);
- capture the reasons for decisions made about what is and is not tolerable exposure;
- facilitate recording of the way in which it is decided to address risk;
- allow all those concerned with risk management to see the overall risk profile and how their areas of particular responsibility fit into it; and
- facilitate review and monitoring of risks.

Risk associated with specific parts of the business is covered in section 1.3.1 and there is further information on our approach in section 3.3.6. An extract from the strategic risk register is as follows.

**Table 4: Extract from risk register**

Category of risk	Description	Impact	Mitigation
<b>People</b>	Accident on the Scottish Crown Estate leads to fatality or serious injury. Loss of life.	Permanent disablement. Financial (e.g. liabilities claim). Reputational.	New H&S policy framework, processes, training and reporting in place. 'Health check' of our operational management activities in line with our policies. Development of strong H&S culture Improved incident reporting Robust audit procedures. Monitor changes in legislation and case law and action as appropriate.
<b>Finance</b>	Brexit and / or COVID-19 results in lease defaults leading to loss of revenue, reduced capital valuation and increased liabilities.	Liabilities increase. Loss of value.	Monitor Brexit and post-COVID 19 arrangements and sector indicators. Prepare cautious budget to accommodate payment deferrals and defaults. Facilitate provision of support for farm business planning / development of tenants' integrated land management plans (ILMP's). Close liaison / communication with shellfish and tourism tenants
<b>Society</b>	Uncertainty and ongoing change leads to loss of skills / expertise / morale.	Negative impact on team, staff well-being and overall performance.	Implement People Strategy, aligning with Fair Work principles of security, fulfilment, respect, effective voice and opportunities. Annual staff survey with subsequent action plans. Embed new Pay & Conditions framework New performance management and competency frameworks Strong relations with recognised union, PCS
<b>Finance</b>	Loss of systems, information and business continuity results in organisational failure.	Reputational damage and loss of key business information; recovery costs.	Independent review of IT infrastructure (completed 2019-20) and implement recommendations. Build in-house IT staff capacity. Up-to-date emergency response procedures in place. Records Management Plan in place.

## 2.2 Overview of financial performance

The careful financial and operational management to meet targets and manage cashflow that characterised our first two years continued into our third year.

A £0.6m increase in indirect costs from last year reflects strengthening of the team to deliver the 2020-23 Corporate Plan, with headcount rising from 43 to 56, and increases in pension costs.<sup>6</sup>

We expect the number of staff to start to stabilise in 2020-21.

There were also one-off costs related to implementing our new pay and grading structure. More on staff costs is in section 3.4.

Returning £12m to Scottish Government (over £4m ahead of budget) and having capital funds of £38.6m (after 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.<sup>7</sup> There was an increase of £1.7m in our end of year cash position.

Capital remains the property of the Monarch in right of The Crown. We therefore maintain a strict separation between revenue and capital accounts with transfers happening only under the circumstances defined within our legal framework.

### 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.

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

<sup>6</sup> Direct costs include maintenance, repairs, managing agents and other costs related to the land and property for which we are responsible. Indirect costs relate to staff (most staff costs are funded from revenue, some come from capital), our two offices, a range of systems, insurance, governance and some professional support.

<sup>7</sup> The legislation which created Crown Estate Scotland (see [www.legislation.gov.uk/sdsi/2017/9780111033388, Article 20](http://www.legislation.gov.uk/sdsi/2017/9780111033388/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 to fund short-term capital cashflow. 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 our first two years, we built up a capital reserve for reinvestment through transactions on the agricultural and residential assets, as well as offshore wind projects reaching significant milestones.

In 2019-20 the capital reserve did not increase as capital income generated through transactions including the sale of garages at our urban property, coupled with a number of assets on the rural and coastal estates including residential cottages and commercial properties, was offset by expenditure on the rural estate and the initial stages of ScotWind Leasing.

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 driving up capital value of and revenue returns from offshore renewable energy assets. We expect this trend to continue in coming years as the energy industry continues to decarbonise and more offshore renewable energy projects progress.

Our ScotWind Leasing, launched in 2020, will open up new areas of seabed identified in Marine Scotland's Sectoral Plan for Offshore Wind Energy, helping to develop a further pipeline of new offshore wind projects expected to be built in the late 2020s and beyond.

Overall rural value has held well. A small number of sales is balanced by healthy timber prices and the high value of forestry land.

The value of minerals including natural-occurring gold and silver fell by 6% due largely to leases being one year older and therefore closer to expiry.

Fluctuations in commodities pricing and uncertainty around Brexit and COVID-19 mean our team will continue close working with tenants in shellfish, agriculture and tourism.

## 2.2.1 Revenue and valuation

In the pages that follow we provide a summary of the financial performance of the business, including property valuation, (Tables 5 and 6) and revenue income generated by activity on marine, rural, coastal and urban assets (Charts 1-4).

In Table 7 we then detail key factors relating to changes in gross revenue and valuation compared to 2018-19.

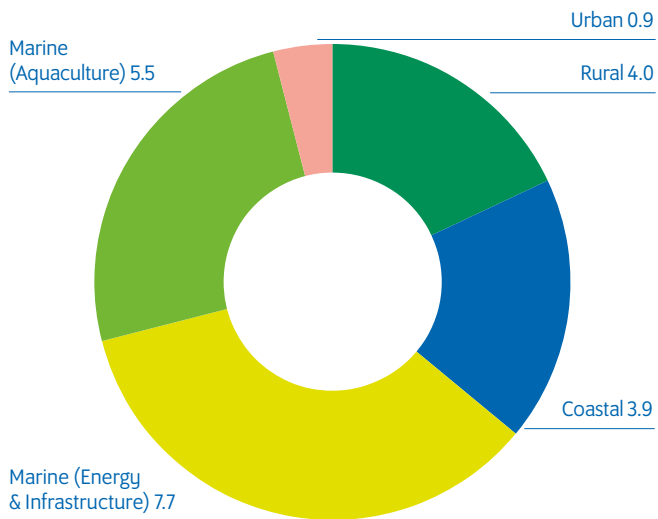
**Table 5: Summary of revenue account**

	2019-20 £m	2018-19 £m
Gross revenue	22.0	19.0
Direct costs	(4.8)	(3.3)
Indirect costs	(3.3)	(2.7)
Transfers to capital account	(1.8)	(1.5)
Investment income	0.1	0.1
Depreciation of tangible fixed assets	(0.2)	(0.2)
Revenue profit	12.0	11.4

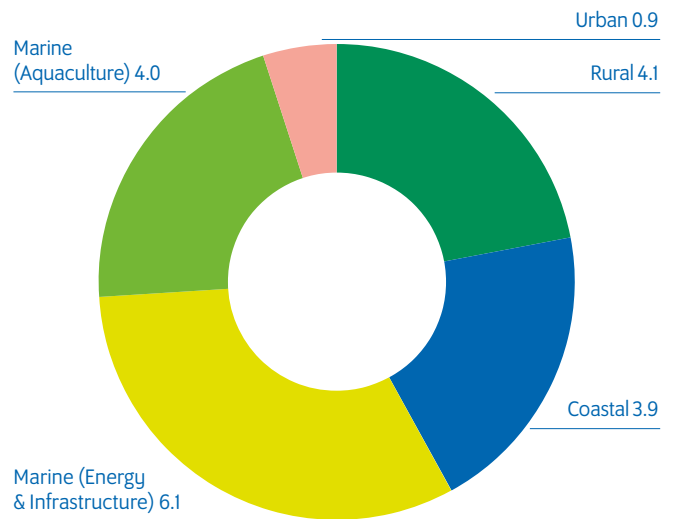
**Table 6: Gross revenue and property valuation 2019-20 and 2018-19**

	2019-20 £m	2018-19 £m
Total gross revenue	22.0	19.0
Total property valuation	426.2	358.8

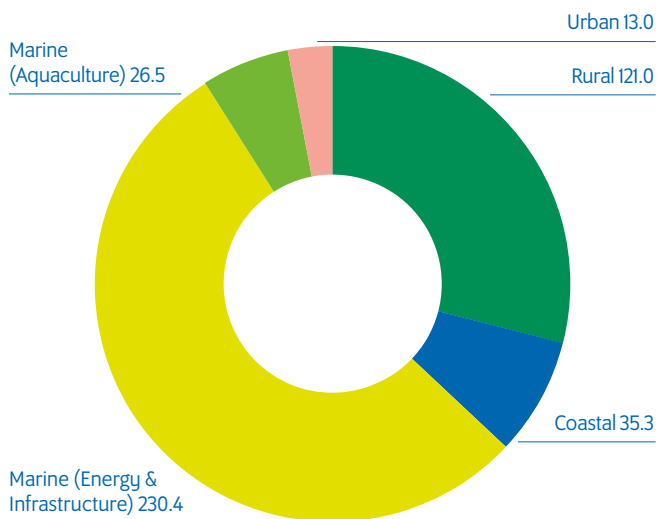
**Chart 1: Gross revenue by operating division  
£m 2019-20**



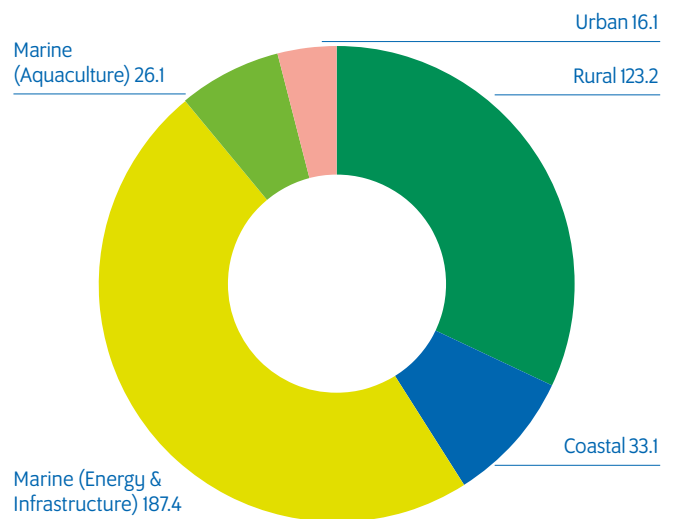
**Chart 2: Gross revenue by operating division  
£m 2018-19**



**Chart 3: Property valuation by asset  
£m 2019-20**



**Chart 4: Property valuation by asset  
£m 2018-19**



**Table 7: 2019-20 gross revenue and property valuation**

	Gross revenue 2019-20 (2018-19) £	Notes	31 March 2020 valuation £m (% change on 31 March 2019)	31 March 2019	Notes on change since 31 March 2019
<b>Rural (agriculture, forestry, minerals and naturally-occurring gold &amp; silver)</b>	4.0 (4.1)	Revenue generated by the activities managed as part of our rural portfolio. Year on year variances included a reduction in forestry income following unanticipated felling of diseased trees in 2018-19 and an increase in income from the Cononish mine and greater number of options agreements in place.	121.0 (-1.8)	123.2	Forestry has increased value, reflecting market trends and the sector's ability to attract investment.  Value of minerals including natural-occurring gold and silver fell by 6% due largely to leases being one year older and therefore closer to expiry.
<b>Coastal</b>	3.9 (3.9)	Revenue generated by the activities managed as part of our Coastal portfolio (includes ports & harbours, moorings, pontoons, dredging and outfalls).	35.3 (+6.6)	33.1	Increase in capital value driven by small number of large transactions. These include uplifts in rents from Master Agreements.
<b>Marine (Energy &amp; Infrastructure)</b>	7.7 (6.1)	Revenue is linked to energy output. 2019-20 saw an increase in offshore production leading to increased revenue. Infrastructure revenue arises from cable & pipeline activities on the seabed.	230.4 (+22.9)	187.4	Increase in value driven by progress in development of projects in Scotland's East Coast waters.
<b>Marine (Aquaculture)</b>	5.5 (4.0)	Reflects an increase in finfish production following higher than anticipated production the previous year.	26.5 (+1.5)	26.1	Value increase largely reflects the increase in finfish production during 2019.
<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.	13.0 (-19.3)	16.1	Decrease reflects property vacancies together with wider market challenges.
<b>Total</b>	<b>22.0 (19.0)</b>		<b>426.2 (+10.4)</b>	385.8	

### Best value and value for money

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

As Accountable Officer, the Chief Executive has a duty to secure Best Value through continuous improvement in performance and having regard to economy, efficiency and effectiveness, as well as sustainability and equal opportunities. Further detail is in our Framework Document.

### Forward-look

Gross revenue for 2020-21 is projected at £21.6m. Our work will generate an estimated £8.6m for the public purse, representing 40% of gross revenue.

We anticipate capital expenditure of up to £10.2m with receipts of approximately £13.2m. Both the revenue and capital budgets were developed early 2020 and do not reflect the impacts of COVID-19.

As our remit grows and new requirements relating to the Act come into force, our costs – including staff costs – have increased so that we can deliver more. Our workforce planning activity indicates that the recent increase in headcount will soon stabilise.

We have robust controls in place to ensure effective budget and cash management.

We are required to move our Edinburgh office in late 2020 when our lease ends. Given the favourable terms we have at our current location, this is expected to add to our annual indirect costs as well as incur a one-off project cost in 2020-21.

We have reviewed the balance of outsourced and in-house support and subsequently 2020-21 will see us retender the managing agents' contracts to enhance performance and to ensure value for money.

In section 3.3, we set out our internal control structure and how we manage resources.

## 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 2020, Crown Estate Scotland had 53 FTE staff (more detail is in section 3.4). Our current business model is based on a small core team with support from managing agents. This provides flexibility and access to a wide range of expertise while helping us manage costs.

Activity to support and develop our people included:

- Developing a new approach to performance management to strengthen the link between individual performance, team goals and organisational success;
- Developing and rolling out a new behavioural competency framework;
- Embedding our new pay & grading framework, working closely with our recognised trade union, PCS;
- Enhancing employee communications and engagement with a planned programme of communications, briefings and team meetings, quarterly off-site workshops, and more;
- Introducing a new e-learning platform;

- Introducing flexi-time;
- Training for all staff covering H&S, bullying & harassment, equality and diversity and performance management;
- Developing a new People Strategy to align with the 2020-23 Corporate Plan; and
- Maintaining our Living Wage employer accreditation.

Last year we committed to building capacity across all teams, recognising the need to match our growing remit and ambition with the right staff resource. This year, following a workforce planning exercise and a review of outsourced support, our headcount grew from 43 to 56.

We also expanded our Board, with two additional non-executives appointed with strategic-level expertise in people, change management and communications. Two shadow Board members joined too, each for six months.

We will continue our workforce planning activity in line with Crown Estate Scotland's strategic direction, including exploring the need for more staff to be

based outside Edinburgh and / or work remotely to help deliver business needs.

We have also finalised and embedded our new pay and grading framework. This involved job analyst training and developing our Job Evaluation and Grading Policy. We will continue to ensure policies and processes are in place to support this new framework and ensure it remains fit for purpose.

In 2019-20, a staff working group was set up to help shape a new approach to performance management with a focus on quality conversations, continual feedback and staff owning and driving their professional development. This new approach will be piloted in 2020-21.

2020-21 will see us finalise our People Strategy, using the Fair Work principles of effective voice, fulfilment, security, opportunity and respect to help guide our people activities. There will be an emphasis on building capability, well-being and employee relations, working closely with our recognised trade union, PCS.



## Case Study 4: Investing in sustainable food production

Our 200 agricultural tenants face a number of challenges in today's world, including the ever-evolving nature of farming and sustainable food production, making it key that equipment and premises are up to date, so tenants can continuously develop their businesses.

Our extensive programme of investment across the four rural estates has seen over £3m spent in 2019-20 to help ensure our tenants' premises and equipment is fit for purpose.

This is phase one of the repairs, replacements and improvements identified through our 2018 condition survey of rural buildings and follows £2.2m and £4.4m investment in our rural estates in 2017-18 and 2018-19 respectively.

Our support isn't just about bricks and mortar though. We've also taken steps to ensure that our farming tenants are able to access the right advice by offering to pay the farmer's portion of The Scottish Government's Integrated Land Management Plan (ILMP) fee. This provides vital business planning support and advice with the ultimate production of a business plan for tenants to follow.

We're looking forward to continuing to find new ways of building on these benefits in the years to come.





## New Farm, Applegirth

In August 2019, following an open market tender process, a local couple took on a 242-acre farm on the Applegirth Estate in Dumfries & Galloway.

However, there was a need for significant investment in the holding, so we commissioned a local contractor.

The £160,000 works included:

- Works to the farmhouse roof and valley gutters
- Internal repairs to rooms
- Internal and external redecoration farmhouse
- Reroofing the courtyard complex and external redecoration
- Demolition of temporary farm building structures
- Fencing improvements

This work means that the new tenants can maximise the potential of the farm while also ensuring the protection of the surrounding natural habitats.



## Nevie Farm, Glenlivet

An upland farm on Glenlivet Estate was in need of a range of works, especially to the silage clamp which is vital to providing an important food source for livestock in the winter months.

With the various challenges that face upland farmers, replacing the clamp was key to the business needs of our tenant.

This work commenced in autumn 2019 and completed March 2020 with a total cost to Crown Estate Scotland £106,000.

The clamp was also placed in a more convenient location, with increased height and capacity for ease of working, making it much better suited for a modern farming operation. Importantly, the new clamp will reduce the need for silage bales to be wrapped, decreasing the use of plastic on the farm.



## 2.3.2 Health & Safety

Excellent Health & Safety (H&S) management continues to be fundamental to the success of the organisation. Responsibility for H&S sits with the Board with oversight delegated to the Audit & Risk Committee. We will continue to meet all relevant H&S requirements and continue to improve our approach and management of H&S.<sup>8</sup>

Our central H&S Committee meets quarterly and includes trade union representation. H&S is incorporated as an objective in all staff performance reviews, is covered in detail in our induction process, and is a fixed item on all Board, senior management, staff and team meeting agendas.

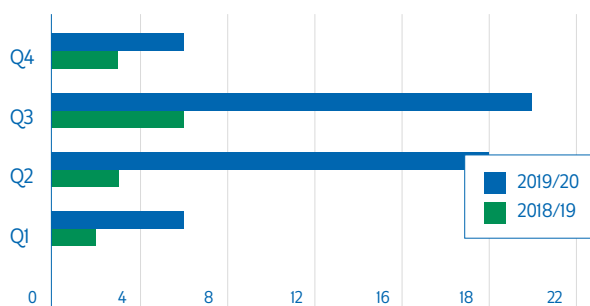
Throughout 2019-20 we completed a range of specific activities to further embed a positive H&S culture throughout the business. These activities include:

- Roll out of H&S e-learning courses, including H&S Basics and Essentials;
- H&S leadership training for the Board;
- Mandatory H&S Lunch and Learn sessions held to introduce policy revisions to all staff;
- Revised induction process to include expanded H&S focus; and
- Development of new emergency response procedure, a trial of this new procedure through live simulation and emergency response resources added to our intranet.

Chart 5 shows recorded accidents and near misses related to staff in 2019-20 compared to 2018-19. In 2019-20 there were 17 near misses / incidents and 11 accidents. All accidents were minor and resulted in no staff time off work. Whilst the majority of accidents were reported at Glenlivet Estate, the majority of near misses were reported at the Edinburgh office.

There were no RIDDOR reportable staff accidents or incidents in the 12 months to 31 March 2020.

**Chart 5: Staff accidents & near misses in 2019-20 compared to 2018-19**



## 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")
- General Data Protection Regulation (GDPR) 2018
- Data Protection Act 1998.

Crown Estate Scotland operates the Scottish Public Sector Ombudsman's model complaints handling procedure (CHP).

**Table 8: FOISA and EIR requests and responses**

	2019-20	2018-19
Requests for information received	41	48
Requests for information responded to	41	44*
Percentage of requests responded to within 20 working days	98%	92%
Average response time (working days)	13.8	7.97
Number of reviews carried out	**1	2
Number of cases appealed to the Scottish Information Commissioner	**0	0
Decisions issued by the Scottish Information Commissioner	**0	0

\* Some requests were still being processed within the statutory time limit.

\*\* Information subject to change given statutory limits for reviews and appeals are ongoing into Financial Year 2020-21. Figures as of 31 March 2020.

20% of the requests received were from the same requester, continuing a now established pattern in requests received.

There has been one late response (compared to four in 2018-19). Under review we found that the request was treated as business as usual and the response was not submitted within the statutory timeframe of 20 working days. We will continue to promote awareness through training to both staff and managing agents to try and minimise late responses (see section "Training" below).

### Appeals

We received one request for a review of Crown Estate Scotland's handling of their request. The review overturned the original decision and the information was released.

### Cases appealed to the Scottish Information Commissioner and Decision Notices Issued

No appeals were made to the Scottish Information Commissioner during the period of this report.

### Training

Training on freedom of information and on data protection is given as part of the induction process for new employees. Refresher training on freedom of information is scheduled for all employees and will be broadened to all managing agents. Training on data protection has been delivered to staff via an online training course and a face-to-face training session.

8 Our H&S Policy Framework is at [www.crownestatescotland.com/corporate-policies](http://www.crownestatescotland.com/corporate-policies)



## Complaints

In 2019-20, we received nine complaints (four of which were dealt with as stage two complaints due either to their complexity or because we were required to obtain information from third parties in order to respond). One complaint was not dealt with in the timescales set out in our complaints handling procedure due to the impact of the COVID-19.

### 2.3.4 Sustainability

Environmental sustainability of the assets is key to our long-term success as an asset manager and investor, and to our ability to generate lasting value for Scotland.

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

This is demonstrated by activities including our:

- Work with tenants on woodland management, peatland restoration and habitat and species management;
- Researching children and young people's views on environment and natural resources, and using the results to inform our 2020-23 Corporate Plan;
- Ranger team's educational work; for example, providing opportunity for citizen science work on the estate; and
- Support for Education Scotland's "Developing the Young Workforce" programme in Moray, working with the Moray Council education department and teachers to make links between education and the land-based sector.

We have committed to developing a Crown Estate Scotland Climate Change Action Plan in 2020-21 covering our direct operations and how we may positively influence the sectors we work with.

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 are integrated into our business planning. Our [Biodiversity Statement](#) was published in 2018 and we will provide a publicly available report on actions taken to meet our biodiversity duty in 2021.

And as global challenges relating to climate change intensify, we are committed to ensuring our assets and activity supports Scotland's ambitious target of net zero emissions by 2045. In 2020-21 we will develop and implement Crown Estate Scotland's first Climate Change Action Plan. The Action Plan will cover direct emissions from Crown Estate Scotland and incorporate measures to influence tenant activities to reduce indirect emissions.

Crown Estate Scotland continues to support the 'Investment in Natural Capital' as set out in the 2020 Routemap. This year we broadened our work with the internationally recognised Natural Capital Protocol by testing the approach in a [dairy farm located on our Applegirth Estate](#). This allowed us to explore how the Protocol can be applied in a new way, assessing the

health of the natural environment and helping agriculture build a sustainable future. We will continue to work with partners and tenants to embed a natural capital approach in 2020-21.

We have made progress on developing The Value Project, a framework to identify the different types of value (economic, social, environmental and regeneration) currently generated through our management of the Estate.

In the coming year we will have a complete set of resources (including a value library; value profiles for the types of asset that we manage; and a value decision tool) that will allow our asset managers to consistently and systematically present data and information about the wider benefits that could be realised from our investment decisions.

## Impact assessments

As a public body subject to the Environment Assessment (Scotland) Act 2005, we must carry out Strategic Environmental Assessments (SEA) on certain plans, programmes and strategies. We received advice that we should carry out a [SEA of the Corporate Plan](#) as it developed.

Completing the SEA allowed us to take environmental considerations into account when developing the plan, avoiding any significant adverse effects on the environment. The outcome of the assessment showed that implementing the 2020-23 Corporate Plan would have no significant negative impact on the environment, instead it should generate largely positive environmental effects.

Our [Post Adoption Statement](#) outlines how we plan to monitor these positive (and any unforeseen negative) environmental effects. We will use The Value Project framework to guide staff on what kind of information must be collected relating to investment decisions – this wider value information will include environmental and climate change information. From this information, any environmental effects can be identified and reviewed.

Further assessments and screening exercises conducted for our draft 2020-23 Corporate Plan included:

- An Island Communities Impact Assessment;
- A Children's rights and Well-being (screening); and
- An Equality Impact Assessment.

These assessments and screening exercises can be found [here](#) and outcomes shaped the final 2020-23 Corporate Plan.

## Office operations

Our recycling and waste diverted to energy from waste treatment or landfill figures for 2019-20 are outlined in Table 9. We have cited 2018-19 figures for comparison. Waste from our Edinburgh offices is recycled where possible, with residual waste going to energy from waste treatment.

Measures in place to reduce the environmental impact of our direct operations focus on reducing waste and minimising single use plastics. We continue to monitor our use of fossil-fuels and try and minimise this through our use of a hybrid pool car and opting for detergents and soaps made without fossil fuel-based ingredients.

Our new supplier for office supplies such as stationery is WildHearts whose profits fund the WildHearts Foundation, a charity dedicated to tackling economic injustice and gender inequality.

The Glenlivet Estate office, which is also a visitor centre, has an electric vehicle charging point for public use and has been awarded the Green Tourism Gold Award.

**Table 9: Weight of materials collected for recycling and landfill**

Office	Recycled (kg)		Energy from Waste (kg)		Landfill (kg)	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Edinburgh	2625	2679	1725	2070	n/a	
Glenlivet	240	261.5	n/a		189	175



**Simon Hodge, Chief Executive,**  
**Crown Estate Scotland**  
 02 September 2020

# **3. Governance**

# 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) (reappointed 1 April 2020)
- Dr Michael Foxley (reappointed 1 May 2020)
- Liz Leonard (appointed 1 May 2019)
- Jean Lindsay (appointed 1 May 2019)
- Andrew Macdonald
- Robert Mackenzie (reappointed 1 May 2020)
- Richard Morris
- Alister Steele MBE

Hugh Raven stepped down from the Board on 31 January 2020.

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 is committed to equality and diversity. During 2019-20 the Board offered two opportunities for individuals to shadow the work of the Board and its Committees in order to support the diversity of applicants to public sector boards. The role of the Board is set out in our 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.

Having conducted a self-evaluation of the performance of the Board and of individual members in 2018-19, the Board held an externally facilitated review of its effectiveness in September 2019. The facilitator used "The new science of team chemistry" to identify different work styles of members and discuss with the Board how those styles related to each other and then how they could be actively managed to enhance the functioning of the Board. The Board then assessed how they could look to introduce efficiencies in decision-making by using its committee structure with clear delegation of authority for specific actions to those committees. Actions identified by the Board were incorporated into an action plan. The Board also requested that the internal audit plan for 2020-21 include an audit of governance.

## 3.2 Statement of Accountable Officer's Responsibilities

In accordance with section 2 of the Crown Estate Act 1961, as amended by the Scotland Act 2016, the Scottish Ministers have directed Crown Estate Scotland to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction (issued by the Scottish Ministers on 4 July 2018). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Crown Estate Scotland and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts, the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;

- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgments required for determining that it is fair, balanced and understandable.

The Principal Accountable Officer for the Scottish Administration has designated the Chief Executive as Accountable Officer of Crown Estate Scotland. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding the assets of Crown Estate Scotland, are set out in Managing Public Money published by the HM Treasury.

As the Accountable Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that Crown Estate

Scotland's auditors are aware of that information. So 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 the 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 and the Audit & Risk Committee 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 Accountable Officer within Crown Estate Scotland, able to maximise productivity within a robust strategic framework.

As at the year end, the Board comprised eight 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 Minister for Rural Affairs and the Natural Environment 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. Jean Lindsay (from May 2019), Andrew Macdonald (to May 2019) and Richard Morris were the other non-executive members who served on the Committee during the financial year.

The Committee review the financial reports 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 and Assurance Handbook.

**Table 10: 2019-20 Board and Audit & Risk Committee attendance (not subject to audit opinion)**

Name	Board		Audit & Risk Committee	
	Held	Attended	Held	Attended
Amanda Bryan	6	6	-	-
Dr Michael Foxley	6	6	-	-
Andrew Macdonald **	6	5	4	0 of 1
Liz Leonard	6	4	-	-
Jean Lindsay***	6	6	4	2 of 3
Robert Mackenzie	6	6	4	4
Richard Morris	6	6	4	4
Hugh Raven*	6	2 of 5	-	-
Alister Steele MBE	6	6	-	-

\* stepped down from the Board on 31 January 2020

\*\* stepped down from the Committee on 31 May 2019

\*\*\* joined the Committee on 1 June 2019

### 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 issued in September 2017.

In addition, Crown Estate Scotland substantially 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 or as noted in this statement (see below at 3.3.7). As we prepare for delivery against the 2020-23 Corporate Plan, further work is underway to develop our business case and project management processes for new projects in line with the Treasury Green Book, to strengthen our procurement procedures having moved to Contracting Authority status on 1 April 2020, and to institute new procedures for managing requests for below market value transactions in line with the Scottish Crown Estate Act 2019.

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 2020, 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. More on strategic risk is in section 2.1.

### 3.3.7 Internal Audit

Crown Estate Scotland reviewed the provision of its internal audit services provider in 2019-20 and initiated a process to procure a new internal audit service in autumn 2019. Following a competitive tendering exercise, RSM Risk Assurance Services LLP were appointed in January 2020 to commence with effect from 1 April 2020. A comprehensive internal audit needs assessment process was immediately initiated by RSM Risk Assurance Services LLP at the request of Crown Estate Scotland with a draft internal audit plan 2020-21 update provided to the meeting of the Audit & Risk Committee on 20 February 2020.

Whilst the expected independent internal audit service was not provided during 2019-20, the senior management team undertook a number of in-house internal controls improvement reviews. These included reviews to inform improvement of internal controls in the areas of:

- Contract Management – resulting in the strengthening of their contracts database, contract ownership and supervision controls; this is in addition to instigating the re-tendering of the managing agents' contracts recognising the opportunities to drive greater value from these contracts. Staff attended project management training.
- Health & Safety – resulting in an overhaul of the health & safety policies, training and relaunch of the reviewed policies. Implementation and embedding of the health & safety policies has been included as an area of internal audit coverage in RSM Risk Assurance Services LLP Internal Audit Plan for 2020-21;
- Procurement – in recognition of becoming a contracting authority from 1 April 2020, procurement processes have been reviewed and a procurement manager has been recruited;
- Assurance Framework – to enhance the risk management and assurance activity at Crown Estate Scotland, an assurance checklist modelled on that contained in the SPFM has been introduced; and



- Finance – capacity and resilience in the Finance team was increased allowing improvements to the financial and performance reporting processes, including developing a finance business partnering approach.

An e-learning platform was introduced and staff required to complete mandatory training in health & safety (H&S), cyber-security, equality and diversity and data protection.

In addition to the above, Crown Estate Scotland commissioned an external review of its IT infrastructure which identified some immediate actions which required to be taken to improve resilience and other recommendations to improve the IT function of the organisation. Many of these actions have been undertaken or work to implement them is under way. A Senior IT Manager was appointed in early 2020 with part of the role's remit being to implement the review recommendations.

### 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 2020.

### 3.3.9 Personal Data Related Incidents

Crown Estate Scotland had no significant or reportable data-related incidents during 2019-20.

### 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 2019-20.

### 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**  
 02 September 2020

## 3.4 Remuneration and Staff Report

### Remuneration Policy

Following the introduction of a new pay and grading structure, effective from 1 April 2019, Crown Estate Scotland operates in line with the provisions of the Scottish Government pay policy. The annual pay award is negotiated with our recognised trade union, the Public and Commercial Services Union (PCS), within the parameters set by Scottish Government Pay 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.

Board members are appointed by the Scottish Ministers in accordance with the Crown Estate Scotland 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 2019/20	Fees £'000 2018/19
Amanda Bryan (Non-executive member, Chair of the Board)	20-25	25-30
Dr Michael Foxley (Non-executive member)	5-10	0-5
Andrew Macdonald (Non-executive member)	5-10	0-5
Robert Mackenzie (Non-executive member, Chair of the Audit & Risk Committee)	5-10	0-5
Richard Morris (Non-executive member)	5-10	0-5
Hugh Raven (Non-executive member)*	0-5	0-5
Alister Steele MBE (Non-executive member, Chair of the Investment Committee)	5-10	0-5
Jean Lindsay (Non-executive member)**	0-5	N/A
Liz Leonard (Non-executive member)**	0-5	N/A

\* stepped down on 31 January 2020

\*\* appointed on 1 May 2019

Board members did not receive any benefits in kind, bonuses or performance related pay. All members noted above served throughout the financial year unless stated otherwise.

### Remuneration and pension benefits of the Chief Executive

Simon Hodge has been Chief Executive and Accountable Officer since 11 April 2018.

	Salary £'000		Pension Benefits* £'000		Total £'000	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Simon Hodge	107	101	78	167	185	268

\*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.

	Accrued pension at pension age as at 31.03.20 £'000 2019/20	Accrued pension at pension age as at 31.03.19 £'000 2018/19	Real increase in pension and related lump sum at pension age £'000 2019/20	Real increase in pension and related lump sum at pension age £'000 2018/19	CETV at 31.03.20 £'000 2019/20	CETV at 31.03.19 £'000 2018/19	Real increase in CETV £'000 2019/20
Simon Hodge	50-55 plus a lump sum of 135-140	45-50 plus a lump sum of 125-130	2.5-5 plus a lump sum of 5-7.5	7.5-10 plus a lump sum of 22.5-25	1,145	1,018	64

## 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

As of 1 April 2019, Crown Estate Scotland does not operate a bonus scheme. This follows a review of staff pay and conditions which led to the removal of provisions in some contracts that entitled those employees to participate in a discretionary bonus scheme.

## 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

There were no exit packages agreed or paid during the financial year.

## Cash Equivalent Transfer Value (CETV)

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

Crown Estate Scotland pension benefits are provided through the Civil Service pension arrangements. We have three categories of pension provision, they are:

- alpha, otherwise known as the Civil Servants and Others Pension Scheme, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher);
- Principal Civil Service Pension Scheme (PCSPS), The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65; or

A Partnership pension account, which is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from the appointed provider – Legal & General.

For 2019/20, employer's contributions of £0.6m (2018/19: £0.5m) were paid to the PCSPS and other pension providers. These contributions were payable at one of four rates ranging from 26.6% to 30.3% (2018/19: 20.0% to 24.5%) of pensionable pay, based on salary bands. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. alpha and PCSPS are unfunded multi employer defined benefit schemes. As a result we are unable to identify our share of the underlying assets or liabilities.

The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The last valuation was as at 31 March 2016, published 26 February 2019, and details can be found in the Government Actuary's Department actuarial valuation of the Civil Service Pension Schemes as at 31 March 2016 ([www.civilservicepensionscheme.org.uk/about-us/scheme-valuations](http://www.civilservicepensionscheme.org.uk/about-us/scheme-valuations)). The next valuation of the scheme will be as at 31 March 2020.

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

	2019/20	2018/19
Band of highest paid employee's total remuneration £'000	105-110	100-105
Remuneration range £'000	18-110	18-104
Median total remuneration of all employees £	46,634	45,741
Ratio	2.3	2.2

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

**Staff Report**

As at 31 March 2020 there were 56 staff in post and eight non-executive members. The split by seniority 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 (not subject to audit opinion)**

	Head Count 2019/20		Head Count 2018/19		Permanent Staff FTE 2019/20		Permanent Staff FTE 2018/19	
	Male	Female	Male	Female	Male	Female	Male	Female
Non-Executive Members	5	3	6	1	n/a	n/a	n/a	n/a
Senior Management	4	1	3	2	4	1	3	2
Other Employees	23	28	19	19	22	26	18	18

During 2019-20, gender balance of the Board improved with the appointment of two female non-executives. Amanda Bryan, Crown Estate Scotland's Chair, has expressed her continued commitment to improving the gender balance of the Board, as circumstances allow. She has also provided Board shadowing opportunities to those interested in serving on Boards of public bodies so that they can gain experience.

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 was one agency contractor in place at 31 March 2020.

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

	2019/20 £m	2018/19 £m
Wages and salaries	2.4	2.1
Social security costs	0.3	0.2
Other pension costs	0.6	0.4
<b>Total costs</b>	<b>3.3</b>	<b>2.7</b>

**Sickness Absence Data**

Our level of sickness absence for 2019-20 was 5.2 average working days lost (AWDL) (cf. 2018-19 4.7). Adjusting for incidences of long-term sickness the average number of days lost per employee was 2.3 days (cf. 2018-19 1.6 days).

**Staff Policies**

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

We comply with the duty in the Equality Act 2010 to, in the exercise of our functions, have regard to the need to:

- eliminate unlawful discrimination, harassment, victimisation and other prohibited conduct;
- advance equality of opportunity between people who share a relevant protected characteristic and those who do not; and
- foster good relations between people who share a protected characteristic and those who do not.

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.

Activity in 2019-20 to enhance our approach to equality and diversity included

- Online training for all staff
- Introduction of a new equalities-proofed pay and grading structure
- Development and roll-out of a new behavioural competency framework which emphasises inclusivity and the need to value difference
- Development of a new performance management framework informed by an equalities impact assessment.

Our revised People Strategy, to be finalised in early 2020-21, will identify priority actions to further build our work in this area. This is likely to include enhanced data collection and monitoring and further staff training.

The equalities impact assessment for our 2020-23 Corporate Plan can be found at [www.crownestatescotland.com/maps-and-publications](http://www.crownestatescotland.com/maps-and-publications).

## 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 and written off for during the year, as reported in note 21 of these financial statements, Crown Estate Scotland did not incur designated losses or make any other special payments during the 2019-20 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.

### Contingent Liabilities

Crown Estate Scotland did not have any contingent liabilities as at 31 March 2020.



**Simon Hodge**  
Chief Executive and Accountable Officer  
Crown Estate Scotland  
02 September 2020



# **4. Financial statements**

# Financial statements

## 4.1 Independent Auditor's Report

Independent auditor's report to the members of Crown Estate Scotland, the Auditor General for Scotland and the Scottish Parliament

### 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 for the year ended 31 March 2020 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, and as interpreted and adapted by the 2019/20 Government Financial Reporting Manual (the 2019/20 FReM).

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 (as amended) and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM; and
- have been prepared in accordance with the requirements of the Crown Estate Act 1961 (as amended) and directions made thereunder by the Scottish Ministers.

#### Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Auditor General for Scotland. 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 were appointed by the Auditor General for Scotland on 13 November 2017. The period of total uninterrupted appointment is three years. 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. Non-audit services prohibited by the Ethical Standard were not provided to the body. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter – effects of Covid 19 on the investment property valuation

We draw attention to Note 3b to the financial statements, which describes the key sources of judgement and estimation uncertainty in relation to investment property valuations. Our opinion is not modified in respect of this matter.

#### 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.

#### Risks of material misstatement

We have reported in a separate [Annual Audit Report](#), which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

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

As explained more fully in the Statement of the Chief Executive's Responsibilities as the Accountable Officer, 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 Accountable Officer determines 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 obtain 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

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 independent auditor's report. 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 Public Finance and Accountability (Scotland) Act 2000.

## **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 Performance Report 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 Crown Estate Act 1961 (as amended) and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement 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 Crown Estate Act 1961 (as amended) and directions made thereunder by the Scottish Ministers.

### **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.

### **Conclusions on wider scope responsibilities**

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

### **Use of our report**

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.



**Joanne Brown**  
**(for and on behalf of Grant Thornton UK LLP)**  
**110 Queen Street**  
**Glasgow**  
**G1 3BX**  
03 September 2020



## 4.2 Statements of comprehensive income

### For the year ended 31 March 2020

#### Revenue account

	Note	2019/20 £m	2018/19 £m
Revenue	6	22.0	19.0
Costs	7	(8.1)	(6.0)
<b>Operating profit</b>		<b>13.9</b>	<b>13.0</b>
Investment income	10	0.1	0.1
<b>Net operating profit before depreciation, capital transfer agreements and Statutory transfers</b>		<b>14.0</b>	<b>13.1</b>
Depreciation of tangible fixed assets	19	(0.2)	(0.2)
<b>Net operating profit before capital transfer agreements and Statutory transfers</b>		<b>13.8</b>	<b>12.9</b>
Recovery of capital expenditure under the Crown Estate Act 1961 and by capital transfer agreements	11	(1.5)	(1.3)
Statutory transfers	14	(0.3)	(0.2)
<b>Net consolidated revenue account profit</b>		<b>12.0</b>	<b>11.4</b>
<b>Statement of comprehensive income of the revenue account</b>			
Net revenue account profit – distributable to the Scottish Government Consolidated Fund		12.0	11.4
<b>Total comprehensive revenue account profit</b>		<b>12.0</b>	<b>11.4</b>

#### Capital account

	Note	2019/20 £m	2018/19 £m
Revenue	6	0.1	-
Charge from revenue for salary costs	9	(0.9)	(0.7)
Capital impairment	20	-	(2.1)
Net revaluation gains in property and investments (including profit/(loss) on disposal)	12	39.5	83.5
<b>Capital profit before capital transfer agreements and Statutory transfers</b>		<b>38.7</b>	<b>80.7</b>
Recovery of capital expenditure under the Crown Estate Act 1961 and by capital transfer agreements	11	1.5	1.3
Statutory transfers	14	0.3	0.2
<b>Net capital account profit</b>		<b>40.5</b>	<b>82.2</b>
<b>Statement of comprehensive income of the capital account</b>			
Net capital account profit		40.5	82.2
<b>Items that will not be reclassified subsequently to the capital account:</b>			
Deficit on revaluation of owner occupied properties	12	-	-
<b>Total comprehensive capital account profit</b>		<b>40.5</b>	<b>82.2</b>

## 4.3 Statement of financial position

As at 31 March 2020

	Note	2019/20 £m	2018/19 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	16	426.1	385.8
Owner occupied property	17	0.1	-
Plant and equipment	19	0.5	0.5
Receivables due after one year	20	6.9	7.6
<b>Total non-current assets</b>		<b>433.6</b>	<b>393.9</b>
<b>Current Assets</b>			
Inventory		0.0	0.1
Trade and other receivables	21	9.6	8.0
Cash and cash equivalents	22	41.8	40.1
<b>Total current assets</b>		<b>51.4</b>	<b>48.2</b>
<b>Total assets</b>		<b>485.0</b>	<b>442.1</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables – amounts falling due within one year	23	12.3	9.7
<b>Total current liabilities</b>		<b>12.3</b>	<b>9.7</b>
<b>Payables – amounts falling due after more than one year</b>	<b>23</b>	<b>5.8</b>	<b>6.0</b>
<b>Total liabilities</b>		<b>18.1</b>	<b>15.7</b>
<b>Net assets</b>		<b>466.9</b>	<b>426.4</b>
<b>Capital and reserves</b>			
Capital reserve		466.9	426.4
Revaluation reserve		-	-
<b>Total capital and reserves</b>		<b>466.9</b>	<b>426.4</b>

The Notes to the Accounts, numbered 1 to 29, form an integral part of these Accounts.



**Simon Hodge**  
**Chief Executive and Accountable Officer**  
**Crown Estate Scotland**  
 02 September 2020

## 4.4 Cash Flow Statement

### For the year ended 31 March 2020

	Note	2019/20 £m	2018/19 £m
<b>Cash generated from operating activities</b>			
Net operating profit – consolidated revenue account		13.8	12.9
(Increase)/decrease in receivables		(1.9)	(0.2)
Increase/(decrease) in payables		0.5	6.1
(Increase)/decrease in provisions		0.1	0.1
Interest received		-	0.1
Depreciation and impairment		0.2	0.2
<b>Net cash flow from operating activities</b>		<b>12.7</b>	<b>19.2</b>
<b>Cash flows from investing activities</b>			
Capital expenditure on investment properties		(3.6)	(4.2)
Proceeds from disposal of investment properties		1.4	5.9
Proceeds arising from overage events on investment property agreements		0.0	19.7
Purchase of plant and equipment		(0.2)	-
Other capital receipts		1.4	0.4
<b>Net cash flow from investing activities</b>		<b>(1.0)</b>	<b>21.8</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>11.7</b>	<b>41.0</b>
Scottish Government Consolidated Fund payment		(10.0)	(11.8)
<b>Increase in cash in the year after Scottish Government Consolidated Fund payment</b>		<b>1.7</b>	<b>29.2</b>
Cash and cash equivalents at start of the year		40.1	10.9
<b>Cash and cash equivalents at end of the year</b>	<b>22</b>	<b>41.8</b>	<b>40.1</b>

## 4.5 Statement of changes in capital and reserves

### For the year ended 31 March 2020

	Revenue Account	Capital Account		Total
	Revenue reserve available for distribution to the Scottish Government Consolidated Fund £m	Capital Reserve £m	Revaluation Reserve £m	£m
<b>As at 1 April 2019</b>	-	<b>426.4</b>	-	<b>426.4</b>
Net profit for the financial year	12.0	40.5	-	52.5
Introduction of capital	-	-	-	-
Other comprehensive income	-	-	-	-
Revaluation deficit of owner occupied properties	-	-	-	-
<b>Total comprehensive profit for the year ended 31 March 2020</b>	<b>12.0</b>	<b>40.5</b>	-	<b>52.5</b>
Due to the Scottish Government Consolidated Fund – paid in year	(6.0)	-	-	(6.0)
Due to the Scottish Government Consolidated Fund – payable	(6.0)	-	-	(6.0)
<b>As at 31 March 2020</b>	-	<b>466.9</b>	-	<b>466.9</b>



## 4.6 Notes to the financial statements

### 1. Basis of preparation

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. These accounts have been prepared in compliance with the principles and disclosure requirements of the HM Treasury Financial Reporting Manual (FReM), which follows generally accepted accounting practice as defined in International Financial Reporting Standards (IFRS) as adopted by the European Union and the Companies Act 2006 to the extent that it is meaningful and appropriate in the public sector context. 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 conflict 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.

#### Changes in accounting policies in year

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

#### Events after the reporting period

There were no events after the reporting period that require disclosure.

## 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. Marine 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 assessed, 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.

The majority of Crown Estate Scotland's income arises from leases, the accounting for which is described above. IFRS 15 was brought into effect on 01 January 2018 and replaces IAS 18 (revenue) and IAS 11 (Construction contracts). IFRS 15 does not apply to lease contracts subject to IFRS 16, which constitute approximately 97% of Crown Estate Scotland's revenue.

Revenue is recognised using a five step model; identification of the contract, identification of the performance obligations within the contract, determination of the transaction price,

allocation of the price to the performance obligations, then revenue is recognised as the performance obligations are fulfilled.

Revenue is recorded net of VAT and only to the extent that economic benefit is expected to flow to Crown Estate Scotland.

## 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 Order 2017.

## 2h. The Principal Civil Service Pension Scheme (PCSPS) and Civil Servants and Others Pension Scheme (alpha)

The PCSPS and alpha are unfunded multi-employer defined benefit schemes. Crown Estate Scotland is unable to identify its share of the underlying assets and liabilities and as such has accounted for the schemes as defined contribution schemes. A full actuarial valuation was carried out as at 31 March 2016. 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. 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.

### 3b. 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. Crown Estate Scotland commissions independent valuations of its assets on an annual basis. A total of 10 individual valuations of asset types are carried out. All such valuations are conducted by independent, registered valuers, in strict accordance with Royal Institute of Chartered Surveyors 'Valuation – Global Standards' (RICS Red Book) requirements.

This year, as a result of the Covid19 situation (and in accordance with current RICS guidance) all individual valuations contain 'material uncertainty' clauses – the Red Book defines 'material uncertainty' as being where 'the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted'.

The impact of 'material uncertainty' is to reduce the certainty that can be attached to the valuation. However, professional judgement has been applied throughout and the valuation represents the best information available to Crown Estate Scotland. For illustrative purposes, a 10% change in valuation would be expected to have a £42.6m impact on the Statement of Financial Position.

## 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. IFRS 16 – Leases is effective from the financial year ending 2021-22. The projected impact of this is not expected to be material.

## 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 2020	Year ended 31 March 2019
	Note	Rural £m	Coastal £m	Marine £m	Urban £m	Corporate £m	Total £m	Total £m
Rent and royalties	6	3.3	3.9	13.2	0.9	-	21.3	18.2
Produce	6	0.6	-	-	-	-	0.6	0.8
Other income	6	0.1	-	-	-	-	0.1	-
<b>Revenue</b>		<b>4.0</b>	<b>3.9</b>	<b>13.2</b>	<b>0.9</b>	<b>-</b>	<b>22.0</b>	<b>19.0</b>
<b>Direct costs:</b>								
Management fees and costs	7	(1.0)	(0.6)	(0.2)	(0.1)	-	(1.9)	(1.5)
Repairs and maintenance	7	(1.3)	-	-	-	-	(1.3)	(0.4)
Other direct expenditure	7	(0.9)	(0.2)	(0.4)	(0.1)	-	(1.6)	(1.4)
<b>Total direct costs</b>		<b>(3.2)</b>	<b>(0.8)</b>	<b>(0.6)</b>	<b>(0.2)</b>	<b>-</b>	<b>(4.8)</b>	<b>(3.3)</b>
<b>Gross profit</b>		<b>0.8</b>	<b>3.1</b>	<b>12.6</b>	<b>0.7</b>	<b>-</b>	<b>17.2</b>	<b>15.7</b>
<b>Indirect costs:</b>								
Administrative expenses	8	(0.2)	-	-	-	(3.1)	(3.3)	(2.7)
<b>Total indirect costs</b>		<b>(0.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3.1)</b>	<b>(3.3)</b>	<b>(2.7)</b>
<b>Operating profit/(loss)</b>		<b>0.6</b>	<b>3.1</b>	<b>12.6</b>	<b>0.7</b>	<b>(3.1)</b>	<b>13.9</b>	<b>13.0</b>
Investment revenue	10	-	-	-	-	0.1	0.1	0.1
<b>Net operating profit/(loss) before depreciation, capital transfer agreements and Statutory transfers</b>		<b>0.6</b>	<b>3.1</b>	<b>12.6</b>	<b>0.7</b>	<b>(3.0)</b>	<b>14.0</b>	<b>13.1</b>
Depreciation of tangible fixed assets	19	-	(0.1)	-	-	(0.1)	(0.2)	(0.2)
<b>Net operating profit/(loss) before capital transfer agreements and Statutory transfers</b>		<b>0.6</b>	<b>3.0</b>	<b>12.6</b>	<b>0.7</b>	<b>(3.1)</b>	<b>13.8</b>	<b>12.9</b>
Recovery of capital expenditure under the Crown Estate Act 1961 and Crown Estate Scotland Order 2017	11	-	-	-	-	(1.5)	(1.5)	(1.3)
Statutory transfers	14	-	-	-	-	(0.3)	(0.3)	(0.2)
<b>Net revenue account profit/(loss) distributed to the Scottish Government Consolidated Fund</b>		<b>0.6</b>	<b>3.0</b>	<b>12.6</b>	<b>0.7</b>	<b>(4.9)</b>	<b>12.0</b>	<b>11.4</b>



## Capital Account

							Year ended 31 March 2020	Year ended 31 March 2019
	Note	Rural £m	Coastal £m	Marine £m	Urban £m	Corporate £m	Total £m	Total £m
Income from sale or leases	6	-	-	0.1	-	-	0.1	-
Charge from revenue account for salary costs	9	(0.1)	-	(0.6)	-	(0.2)	(0.9)	(0.7)
Capital impairment	20	-	-	-	-	-	-	(2.1)
Net revaluation gain/loss on investment property (including profit/(loss) on disposal)	12	(4.1)	3.0	43.2	(2.6)	-	39.5	83.5
<b>Capital profit before capital transfer agreements and Statutory Transfers</b>		<b>(4.2)</b>	<b>3.0</b>	<b>42.7</b>	<b>(2.6)</b>	<b>(0.2)</b>	<b>38.7</b>	<b>80.7</b>
Recovery of capital expenditure under the Crown Estate Act 1961 and Crown Estate Scotland Order 2017	11	-	-	-	-	1.5	1.5	1.3
Statutory transfers	14	-	-	-	-	0.3	0.3	0.2
<b>Net capital account profit</b>		<b>(4.2)</b>	<b>3.0</b>	<b>42.7</b>	<b>(2.6)</b>	<b>1.6</b>	<b>40.5</b>	<b>82.2</b>

## Consolidated Statement of Financial Position

							Year ended 31 March 2020	Year ended 31 March 2019
	Note	Rural £m	Coastal £m	Marine £m	Urban £m	Corporate £m	Total £m	Total £m
<b>Non-current assets:</b>								
Investment properties	16	120.9	35.3	256.9	13.0	-	426.1	385.8
Owner occupied property	17	0.1	-	-	-	-	0.1	-
Plant and equipment	19	-	0.4	-	-	0.1	0.5	0.5
Receivables due after one year	20	0.2	-	6.7	-	-	6.9	7.5
<b>Total non-current assets</b>		<b>121.2</b>	<b>35.7</b>	<b>263.6</b>	<b>13.0</b>	<b>0.1</b>	<b>433.6</b>	<b>393.9</b>
<b>Unallocated current assets</b>							<b>51.4</b>	<b>48.2</b>
<b>Unallocated liabilities</b>							<b>(18.1)</b>	<b>(15.7)</b>
<b>Net assets</b>							<b>466.9</b>	<b>426.4</b>
<b>Acquisitions and capital expenditure</b>	<b>16</b>	<b>2.2</b>	<b>0.1</b>	<b>1.2</b>	<b>-</b>	<b>0.2</b>	<b>3.7</b>	<b>5.3</b>

## 6. Revenue

		Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
<b>Revenue account</b>			
Rent and royalties		21.3	18.2
Produce		0.6	0.8
Other income		0.1	-
<b>Total revenue reflected in the revenue account</b>		<b>22.0</b>	<b>19.0</b>
<b>Capital account revenue</b>			
Revenue – amortisation of income from grant of lease premia		0.1	-

## 7. Costs

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Management fees and costs	1.9	1.5
Repairs and maintenance	1.3	0.4
Other direct expenditure	1.6	1.4
Administrative expenses (see note 8)	3.3	2.7
<b>Total costs reflected in revenue account</b>	<b>8.1</b>	<b>6.0</b>

## 8. Administrative Expenses

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Members' remuneration	0.1	0.1
Management and administration expenses	3.2	2.6
	<b>3.3</b>	<b>2.7</b>

Auditors' remuneration of £41,295 (2018/19: £63,050) is included within Management and administration expenses. This is split between internal audit, £4,050 (2018/19: £30,000), and external audit, £37,245 (2018/19: £33,050). There were no fees paid to auditors during 2019/20 for non-audit services (2018/19 £nil).

## 9. Staff Costs

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Wage and salaries	2.4	2.1
Social security costs	0.3	0.2
Pension costs defined benefit scheme	0.6	0.4
<b>Total staff costs</b>	<b>3.3</b>	<b>2.7</b>
Less staff costs charged to capital account	(0.9)	(0.7)
<b>Staff costs reflected in the revenue account</b>	<b>2.4</b>	<b>2.0</b>
Included in:		
Administrative expenses	1.6	1.3
Direct costs	0.8	0.7
Charged to the capital account	0.9	0.7
	<b>3.3</b>	<b>2.7</b>
	<b>Number</b>	<b>Number</b>
<b>The average number of employees during the year</b>	<b>49</b>	<b>41</b>

## 10. Investment Income

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Bank interest receivable	0.1	0.1

## 11. Recovery of capital expenditure under the Crown Estate Act 1961, The Crown Estate Scotland Order 2017 and by capital transfer agreement

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £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	1.5	1.3
Depreciation of fixed assets charged as costs in the income account	0.2	0.2
<b>Total recovered under capital transfer agreements</b>	<b>1.7</b>	<b>1.5</b>

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

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
<b>Reflected in the capital account:</b>		
Surplus on revaluation of investment properties	38.8	62.0
Adjustment for gross up for deferred rent movement	(0.1)	-
Gain on disposal of investment properties	0.8	21.5
Deficit on revaluation of owner occupied properties	0.0	-
<b>Net revaluation gains on investment property (including profit/(loss) on disposal)</b>	<b>39.5</b>	<b>83.5</b>

### 13. 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.

IFRS 9 was brought into effect on 1 January 2018 and replaces IAS 39. The only financial assets held are trade and other receivables, and finance lease receivables. Crown Estate Scotland has no financial liabilities except trade and other payables and finance lease liabilities.

IFRS 9 does not apply to finance lease receivables or liabilities which are subject to IFRS 16.

Trade receivables are measured at transaction price, utilising the exception for trade receivables which are not subject to a material finance element. Expected credit losses are calculated using the simplified approach.

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
<b>Financial Assets</b>		
Long term receivables (note 20)	6.9	7.6
Trade receivables (note 21)	6.1	4.5
Other receivables (note 21)	-	0.3
Accrued income (note 21)	3.3	3.1
Cash and Cash Equivalents (note 22)	41.8	40.1
Prepayments (note 21)	0.2	0.1
	<b>58.3</b>	<b>55.7</b>

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
<b>Financial Liabilities</b>		
Long term payables (note 23)	5.8	6.0
Trade payables (note 23)	0.3	0.1
Rents received in advance (note 23)	4.3	4.0
VAT and other taxes payable (note 23)	0.7	0.8
Accrued expenditure and deferred income (note 23)	0.9	0.6
Due to the Crown Estate Commissioners (note 23)	0.1	0.1
Due to the Scottish Government Consolidated Fund (note 23)	6.0	4.1
	<b>18.1</b>	<b>15.7</b>

### 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 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 18).



## 14. Statutory Transfers

Under the provisions of the Crown Estate Scotland 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 2020 £m	Year ended 31 March 2019 £m
<b>Transfer from revenue account to capital account:</b>		
Mining and/or mineral dealings	0.3	0.2

## 15. 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. £6.0m (2018/19: £7.3m) was paid to the Scottish Government prior to the year end and a further £6.0m (2018/19: £4.1m) is included within payables.

## 16. Investment Properties

Portfolio	Rural £m	Coastal £m	Marine £m	Urban £m	Corporate £m	Total £m
<b>Fair value at 1 April 2019</b>	<b>123.2</b>	<b>33.1</b>	<b>213.4</b>	<b>16.1</b>	<b>-</b>	<b>385.8</b>
Acquisitions	-	-	-	-	-	-
Capital expenditure	2.2	0.1	1.2	-	0.2	3.7
Capital receipts	(0.1)	(0.4)	(0.1)	-	-	(0.6)
Disposals	(0.3)	-	-	(0.2)	-	(0.5)
Revaluation	(4.1)	2.5	42.5	(2.9)	(0.2)	37.8
<b>At closing valuation</b>	<b>120.9</b>	<b>35.3</b>	<b>257.0</b>	<b>13.0</b>	<b>-</b>	<b>426.2</b>
Deferred income from lease premia received	-	-	(0.1)	-	-	(0.1)
<b>Fair value at 31 March 2020</b>	<b>120.9</b>	<b>35.3</b>	<b>256.9</b>	<b>13.0</b>	<b>-</b>	<b>426.1</b>

Included in deferred income from lease premia received is £120,574 (2018/19: £41,059), amortised in accordance with the provisions of the Crown Estate Act 1961 (notes 1 and 23).

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 2020 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 18.

## 17. Owner occupied property

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Fair value at opening	0.04	0.04
Capital expenditure	-	-
Disposal	-	-
Revaluation	0.02	-
<b>Fair value closing</b>	<b>0.06</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 2020 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 18.

## 18. 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 - Global Standards 2017 - UK national supplement published by the RICS (the RICS Red Book) and VGPA 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 2020 £m	Predominant valuation technique	Key observable inputs	Range	Principal valuer
<b>Rural and Coastal portfolio:</b>					
Agricultural	98.9	Comparable/Investment	Proportion of vacant possession Yield	48%-100% 2%-4%	Strutt & Parker
Coastal	35.3	Investment	Yield	7%-15%	Bidwells
Forestry	19.8	Comparable	Land value Timber value	£1,200-£3,450 £320-£6,150	Tim R Kirk
Minerals	2.3	Investment	Yield	7%-25%	Wardell Armstrong
	156.3				
<b>Marine portfolio:</b>					
Renewables – Offshore Wind	205.3	Investment/DCF	Yield Discount rates	4.5%-17% 8%-25%	JLL
Renewables – Wave & Tidal	0.2	DCF	Discount rates	10%-27.5%	Powis Hughes
Cables & Pipelines	24.9	Investment	Yield	6%-12%	Powis Hughes
Aquaculture	26.5	Investment	Yield	13.54%-18.54%	Savills
	256.9				
<b>Urban portfolio:</b>					
Offices	5.3	Investment	ERV Yield	£24-£26 psf 6.5% - 7.5%	JLL
Retail	7.7	Investment	ERV Yield	£165 psf ZA 6.25%	JLL
	13.0				
<b>Total all portfolios at valuation</b>	<b>426.2</b>				

Owner occupied property valued at £0.06m 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 current and proposed 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 has been undertaken with appropriate discount rates for the differing stages of the development process. Both valuation methods take account of the different leasing and rental structures used for each of the development rounds e.g. Round 1, STW, Test & Demonstration and Round 3.

In this valuation a Special Valuation Assumption (as defined in the RICS Red Book) is made that all sites where an option has been granted or a site allocated by Crown Estate Scotland will be valued even if the option is yet to be exercised or an agreement for lease is yet to be signed.

### Strategic land

Hope value for Strategic land is not included in the Fair value reported for the portfolio. The land is included at existing use value.

### 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 wind farms 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.

Crown Estate Scotland commissions independent valuations of its assets on an annual basis. A total of 10 individual valuations of asset types are carried out. All such valuations are conducted by independent, registered valuers, in strict accordance with Royal Institute of Chartered Surveyors 'Valuation – Global Standards' (RICS Red Book) requirements.

This year, as a result of the Covid19 situation (and in accordance with current RICS guidance) all individual valuations contain 'material uncertainty' clauses – the Red Book defines 'material uncertainty' as being where 'the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted'.

The impact of 'material uncertainty' is to reduce the certainty that can be attached to the valuation. However, professional judgement has been applied throughout and the valuation represents the best information available to Crown Estate Scotland.

For illustrative purposes, a 10% change in valuation would be expected to have a £42.6m impact on the Statement of Financial Position.

## 19. Plant and equipment

2019/20	Plant and machinery £m	Office equipment £m	Computer equipment £m	Total £m
Cost at 1 April 2019	0.4	-	0.4	0.8
Additions	0.1	-	0.1	0.2
Disposals	-	-	-	-
<b>Cost at 31 March 2020</b>	<b>0.5</b>	<b>-</b>	<b>0.5</b>	<b>1.0</b>
Depreciation at 1 April 2019	0.1	-	0.2	0.3
Charge	-	-	0.2	0.2
Adjustment	-	-	-	-
Disposals	-	-	-	-
<b>Total depreciation at 31 March 2020</b>	<b>0.1</b>	<b>-</b>	<b>0.4</b>	<b>0.5</b>
<b>Net book value at 31 March 2019</b>	<b>0.3</b>	<b>-</b>	<b>0.2</b>	<b>0.5</b>
<b>Net book value at 31 March 2020</b>	<b>0.4</b>	<b>-</b>	<b>0.1</b>	<b>0.5</b>

2018/19	Plant and machinery £m	Office equipment £m	Computer equipment £m	Total £m
Cost at 1 April 2018	0.4	-	0.4	0.8
Additions	-	-	-	-
Disposals	-	-	-	-
<b>Cost at 31 March 2019</b>	<b>0.4</b>	<b>-</b>	<b>0.4</b>	<b>0.8</b>
Depreciation at 1 April 2018	0.1	-	0.1	0.2
Charge	0.1	-	0.1	0.2
Adjustment	(0.1)	-	-	(0.1)
Disposals	-	-	-	-
<b>Total depreciation at 31 March 2019</b>	<b>0.1</b>	<b>-</b>	<b>0.2</b>	<b>0.3</b>
<b>Net book value at 31 March 2019</b>	<b>0.3</b>	<b>-</b>	<b>0.2</b>	<b>0.5</b>

## 20. Receivables due after one year

	As at 31 March 2020 £m	As at 31 March 2019 £m
<b>Other receivables</b>	<b>6.9</b>	<b>7.6</b>

Following an impairment review, in March 2019 an impairment of £2.1m was made to reflect the reduced realisable value of an investment in a development project. This impairment is capital in nature and was therefore reflected in the Capital Account in the year to 31 March 2019.

## 21. Trade and other receivables

	As at 31 March 2020 £m	As at 31 March 2019 £m
Trade receivables	6.1	4.5
Other receivables	0.0	0.3
Prepayments	0.2	0.1
Accrued Income	3.3	3.1
	<b>9.6</b>	<b>8.0</b>

Trade and other receivables are shown after deducting provisions for bad and doubtful debts of £141,926 (2018/19: £121,554). The trade receivable impairment reflects the application of Crown Estate Scotland's judgement in respect of bad and doubtful receivables.

During the year one debt of over £5,000 was written off requiring Ministerial approval. This totalled £6,118.

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

## 22. Cash and Cash Equivalents

	£m
Balance as at 1 April 2019	40.1
Net change in cash and cash equivalents	1.7
<b>Balance as at 31 March 2020</b>	<b>41.8</b>
The following balances were held within:	
Revenue account	3.2
Capital account	38.6
<b>Balance as at 31 March 2020</b>	<b>41.8</b>

## 23. Payables

	As at 31 March 2020 £m	As at 31 March 2019 £m
<b>Amounts falling due within one year:</b>		
Trade payables	0.3	0.1
Rents received in advance	4.3	4.0
VAT and other taxes payable	0.7	0.8
Due to the Crown Estate Commissioners	0.1	0.1
Due to the Scottish Government Consolidated Fund	6.0	4.1
Accruals and deferred income	0.9	0.6
	<b>12.3</b>	<b>9.7</b>
<b>Amounts falling due after more than one year</b>		
Deferred income on grant of long leases	5.8	6.0
	<b>5.8</b>	<b>6.0</b>

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 2020 £0.1m (2018/19: £0.1m) was outstanding to the Crown Estate Commissioners.

During the year to 31 March 2019 Crown Estate Scotland received a lease premium of £6m on a long lease. In line with the requirements of the Crown Estate Act 1961 (note 1) this is being amortised over the length of the lease.



## 24. Leasing

### Operating leases with tenants

Crown Estate Scotland leases out all of its investment properties under operating leases for average lease terms of 17 years to expiry. The future aggregate minimum rentals, excluding contingent rents receivable under non-cancellable leases are as follows:

	As at 31 March 2020 £m	As at 31 March 2019 £m
Less than one year	1.6	2.0
Between two and five years	2.3	1.5
More than five years	10.2	8.7
	<b>14.1</b>	<b>12.2</b>

Contingent rents receivable were £1.7 million at 31 March 2020 (2018/19: £1.8m). Crown Estate Scotland has no obligations under finance leases.

## 25. Capital Commitments

At 31 March 2020 capital expenditure of £0.7m had been authorised but not yet committed (2018/19: £0.5m).

## 26. 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.

## 27. 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 2020.

Member	Organisation	Position held	Amounts receivable by Crown Estate Scotland 2019/20 (2018/19) £	Amounts payable by Crown Estate Scotland 2019/20 (2018/19) £	Nature of transaction
Amanda Bryan	Highlands and Islands Enterprise	Board Member	12,880 (9,265)	-	Rental income
	Forestry Commission	Forestry Commissioner*	n/a (2,650)	-	Rental income
Michael Foxley	Mallaig Harbour Authority	Member	29,060** (15,700)	-	Rental income
Richard Morris	Forestry Commission	Employee	3,240*** (2,650)	-	Rental income
Hugh Raven	Marine Conservation Society	Trustee	-	10,028 (nil)	Education project funding

\* stepped down on 31 March 2019, \*\*£300 outstanding as at 31 March 2020, \*\*\*£2,500 outstanding as at 31 March 2020

Crown Estate Scotland is a public body, classified as a public corporation with a trading nature, answerable to the Scottish Parliament through Scottish Ministers. 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. See note 15 for further details.

During the period to 31 March 2020 £170,093 (2018/19 £30,120) was payable by Crown Estate Scotland to Marine Scotland, the directorate within Scottish Government responsible for sponsoring Crown Estate Scotland.

## **28. Third party deposits**

At 31 March 2020 Crown Estate Scotland held £79,182 of tenant deposits on behalf of third parties (2018/19: £104,283).

## **29. Events after the reporting period**

The full financial impact of COVID-19 remains unclear but we expect that the future revenue and valuation of assets will be negatively impacted. The full investment property portfolio was independently valued as at 31 March 2020 and these reports noted that COVID-19 increased the uncertainty of the valuation presented. Since the balance sheet date investment property revenue remains in line with budget.

# 5. Appendixes

## Appendix 1



### 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.











## **Head Office**

6 Bells Brae  
Edinburgh  
EH4 3BJ  
Tel. 0131 260 6070  
[enquiries@crownestatescotland.com](mailto:enquiries@crownestatescotland.com)

## **Glenlivet**

Main Street  
Tomintoul, Banffshire  
AB37 9EX  
Tel: 01479 870 070  
[info@glenlivetestate.co.uk](mailto:info@glenlivetestate.co.uk)

 @CrownEstateScot

 [www.linkedin.com/company/crown-estate-scotland](https://www.linkedin.com/company/crown-estate-scotland)

[www.glenlivetestate.co.uk](http://www.glenlivetestate.co.uk)  
[www.crownestatescotland.com](http://www.crownestatescotland.com)