

Board Paper

Date of Meeting: 1 March 2023

Classification: Confidential

Subject: Forecast Resourcing Requirement 24-36 Months

Paper Number: BD(2023)34.4

Annex: Annex A: additional activities started since 2017

Recommendation: The Board is invited to note the content of the paper.

Presenter: Executive Team

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**Our purpose: Investing in property, natural resources and people
to generate lasting value for Scotland**

1. Purpose

The purpose of the paper is twofold:

- to provide a reflective analysis on the nature and quantum of the current staffing levels, and
- to detail the underpinning rationale for additional resource to cover the period up to the introduction of the 2025-30 Corporate Plan (which will take place in 2024-25).

2. Context

Prior to 2017, policy, corporate affairs, governance, finance, HR, IT, and other corporate support services were delivered through UK-wide teams based largely in London.

On transfer, there were c. 12 FTE staff in Scotland providing corporate services with very modest-sized teams e.g. two in finance, one in HR etc. This transfer arrangement, to an extent, reflected staff geographic location, rather than organisational resourcing demand.

From 2017, Crown Estate Scotland began the process of securing capital for investment, creating increased revenue streams to return to the Scottish Consolidated Fund and recycling investment back into the Estate, all of which is consistent with our duties under the Crown Estate Scotland Act 2019 (the Act). Work was also progressed to develop organisational structures, insourcing select activities and transitioning into the system of Scottish Government (which included trade union recognition, reviewing pay & conditions, engagement with Scottish Government officials across a number of policy areas, procurement requirements, programme management requirements, SPFM obligations etc).

Between the period 1 January 2018 and 1 January 2023 the organisation doubled in size with staffing levels moving from 35.5 FTEs to 76.5 FTEs (including vacancies).

Table 1. FTE Headcount by business area (at the 1 April each year)

Activity	April 2017	April 2018	April 2019	April 2020	April 2021	April 2022	Jan 2023
Marine	12.1	11.1	9.0	15.2	15.2	19.8	21.7
Property	11.0	9.0	12.9	14.5	14.9	15.3	17.0
Finance and Business Services	5.9	7.9	8.2	12.4	14.7	13.7	16.0
Corporate Operations	0.8	1.8	9.3	9.6	6.8	12.0	14.9
Chief Executive	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total	30.8	30.8	40.4	52.7	52.5	61.8	71.5

3. Why do we have a staff resourcing and organisational design requirement

A number of fundamental factors underpin a latent and emerging staffing requirement and potential organisational design requirement:

Residual deficit in staffing levels from the time of our formation: Historically the staff base was focused on core business need with limited capacity for other related duties e.g. staff/line management, business/financial planning, investment activity, transaction management, business case development, strategic planning, partnerships, communications & engagement, climate & biodiversity etc. As the business has increased in scale and complexity there is a growing requirement to address these gaps.

Ongoing demands for additional workload on a range of areas including cyber security, systems, procurement and data protection, have impacted on all areas of the business and created resource demand.

Since devolution there has been a steady increase in the number of assets resulting from acquisition and/or new initiatives and agreements adding to the operational portfolio. This includes the acquisition of the ZeroFour Hub, a 123 acre development site for green and clean enterprises. This coincided with the creation of our Built Development team which works in partnership with local communities and local authorities to deliver great places to live.

In 2019, we commissioned a comprehensive rural condition survey and statutory compliance survey covering much of the Estate. A 5-year phased delivery of these surveys / workstreams demanded an increase in the internal workforce which has not been addressed.

We have bold unrealised ambitions to exploit opportunities in the existing Estate, such as leveraging natural capital, biodiversity, geothermal, hydrothermal, energy storage, micro-generation etc.

We are also progressing on-going key capital projects including ZeroFour that require us to improve our capacity and capabilities to deliver. Our project governance and project management capabilities for key projects (as defined by Scottish Government) demands additional staff to enable us to be compliant and meet H&S requirements.

The current disparate nature of H&S responsibilities, which sit across the business, is not in line with best practise. Dedicated resource will be required to oversee H&S compliance across our organisation and activities in the future.

The launch of the three Challenge Funds as well as the local management pilots and MOUs we have with partners across Scotland mean that there will be a much higher increase in the level of workload in this area to write, develop, support, and monitor business plans and capital bids. This activity is now creating a demand for asset management and capital project delivery skills to bring forward these critical commitments.

Since formation there has been a significant increase in enabling and leasing activities in the marine portfolio with initiatives such as ScotWind, INTOG, enabling CCS, hydrogen and datacentres. With each success we generate increased revenues and increase internal workload. The output of initiatives such as the aquaculture root and branch review illustrate this point well. This naturally also increases the focus and importance on ensuring appropriate agreement and asset management resource and processes are in place, and that there is necessary resilience in the organisation.

Insourcing activity previously outsourced: A number of activities were taken back inhouse, specifically:

1. the Asset Management system was bought back inhouse and has increased the workload on central support areas including finance and IT

2. the changes to the Managing Agents contracts have also meant that additional headcount was recruited with the creation of the engagement team
3. the engagement team has now generated a significant pipeline of projects with very limited capacity inhouse to deliver them.

Increased risk to manage: Capital investment in recent years has not been at a level that would prevent decline in the condition of the portfolio, thereby increasing the risk of asset failure and the demand for increased revenue spend and tenant engagement.

We are now embarking on a series of transformative investments and development projects, and in doing have created a demand for new and additional skills.

Reputational risk will increase in the years ahead, as evidenced by challenges in relation to ScotWind and recent feedback in relation to stakeholder engagement. As we deliver more across the sectors that we are active in, we also raise the profile of Crown Estate Scotland. This requires careful reputation management including upfront investment in building awareness and establishing key relationships. We also face increasing scrutiny – for example on finfish farming and biodiversity – and need to assess and respond to opportunities e.g. climate change and the need to decarbonise across the Estate.

The current shortfall in the availability of capital will manifest as risk and may ultimately result in the need to invest in a Direct Labour Organisation as the organisation pivots into a 'revenue based operating model' rather than a 'capital based operating model' - unless of course the long-term conversion of revenue to capital is guaranteed.

Growth in core (wet and dry) asset management activities: We have recently started to increase our activity levels in investment, divestment, development of a portfolio management approach, along with improved PMO and business reporting activities. This activity comes with stringent central government PMO and risk management requirements which will now need to be serviced.

The development of a longer-term planning approach including a 10 year financial plan and longer-term corporate planning horizon will require more input and resource.

Linked to the requirement for greater strategic planning will be the need to incorporate long term lifecycle investment, decarbonisation activities and work to determine the Total Management Cost for the portfolio in its entirety. Internal expertise and consultants will be required to develop plans and resource requirements and monitor and deliver these project requirements.

Growth in turnover: Year on year our operating profit continues to grow, and it is essential that we reinvest in internal capability and capacity.

Table 2. Annual revenue account 2017-22

£m	FY17/18 £m	FY18/19 £m	FY19/20 £m	FY20/21 £m	FY21/22 £m
Revenue	16.4	19.0	22.0	21.6	28.4
Costs	(7.3)	(6.00)	(8.10)	(7.9)	(10.5)
Net revenue surplus (before capital transfer)	10.6	13.0	14.0	13.7	17.90

The traditional public sector approach of *'do more with less'* cannot apply to a self-financing public corporation which is in the business of *'spending more, to earn more, to generate more value'*.

For this reason, investment in resources will naturally go hand in hand with increased value creation and should not be viewed as a cause for concern. Revenues are forecast to increase dramatically in the years ahead and it is important that resourcing levels keep pace with our increasing revenues and associated complexities and demands of the business.

Table 3. Operating Profit per FTE

£m	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	
Net revenue surplus £m (before capital transfer)	10.6	13.00	14	13.70	17.90	
Staff (start of year FTE)	30.8	30.8	40.4	52.7	52.5	
Operating Profit £m/per FTE	0.34	0.42	0.34	0.26	0.34	

While public relations activity has expanded and good use is being made of digital tools, more needs to be done to segment audiences and engage with key stakeholders. The independent Review of Corporate Affairs (available in the Board portal and discussed at the November 2022 Board meeting) sets out the risks associated with the team not growing. Recent qualitative and quantitative stakeholder feedback has outlined areas of weakness or unrealised opportunity. Similarly, growth in the organisation as a whole and the move to hybrid working requires increased emphasis and resourcing to support internal communications.

Table 4. Illustration of growing relevance, profile and requirement to manage brand and reputation.

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Metric	17/18	18/19	19/20	20/21	21/22	22/23 to date
Twitter followers	271	1382	1871	2159	2523	3049
LinkedIn Followers	n/a	n/a	n/a	n/a	5449	7720
Website visitors	18640	30518	36924	66288	86498	69125
FOI and EIR requests received	35	48	41	44	45	45
MSP familiarity/favorability	34% favourable 14% unfavourable	44% favourable 14% unfavourable	49% favourable 4% unfavourable	45% favourable 3% unfavourable	38% favourable 9% unfavourable	34% favourable 7% unfavourable
LA leaders familiarity/favourability	n/a	27% favourable 14% unfavourable	26% favourable 16% unfavourable	22% favourable 17% unfavourable	26% favourable 9% unfavourable	32% favourable 14% unfavourable

Single points of failure: Critical business areas have very limited cover in terms of succession planning and areas of risk to cover absence and staff turnover. This risk has been heightened over the past couple of years as the employment market has become tighter making the recruitment of replacements more difficult.

Property, Marine, Finance, Governance, Policy and Corporate Affairs are all risk areas either due to concentration of knowledge and expertise and / or increased requirements and / or changes in the external environment that need to be reflected in how we manage the Estate. For example, from time to time, resource intensive activities, such as relating to activity on MeyGen, occur which emphasises the requirement to have resilience in the organisation to ensure other areas don't get impacted.

New activities: an illustration of the additional activities started since 2017 is contained in **Annex A**.

Work that is not being progressed which should be: Registration of title, assessing impact of climate change and baselining biodiversity across the Estate, digital enablement and digital twin. Similarly progress in decarbonising the Estate and associated commercial interests is not as advanced as it should be.

4. Requirement

We completed a detailed bottom-up analysis in November 2022, confirming a requirement for circa 24 FTEs over the next 24-36 months to address immediate (short-term) resourcing requirements.

A fluid approach to the utilisation of this resource is anticipated given the uncertainty that exists in relation to the current budget, the long-term revenue to capital conversion, [REDACTED] plus a number of other variables which are beyond our control.

It is however anticipated, based on current planning assumptions, that the capacity will be exercised as follows; 10 roles in FY 23/24, 8 roles in FY 24/25, and 6 roles in FY 25/26.

The refresh of the 2025-2030 Strategic Management Plan and Corporate Plan will be accompanied by a 5 year strategic resourcing plan and 5 year people strategy - reflecting any requests of government which go above and beyond those set out in legislation.

Annex A: Examples of New Activities commenced since 2017

New Activities:

ScotWind
Farm Sales
INTOG
Peatland Restoration
CCS
Data centres
Hydrogen
Capital Challenge Funds
ZeroFour Development
Cyber
Procurement
Managing Agents Changes
Asset Management System
Engagement with recognised union
Local management pilots
Engagement with officials across the wider public sector
Corporate Reporting on biodiversity, climate change action, and activity related to statutory assessments (e.g. Island communities)
Implementation of EDI Plan
Cycle of corporate and annual business planning
Annual Report & Accounts
Less than Market Value

Transfers & Delegations

Servicing departmental requirements

Servicing additional process, governance and procedural requirements associated joining Scottish central government

Board & Committees and wider governance activity and policy framework
FTF and TWG

Attachments enclosed with the response:

1. Recruitment Policy
2. Job Evaluation Policy
3. Investment Analyst Role Profile
4. Procurement Manager Role Profile
5. Corporate Planning Assistant Role Profile
6. October 2022 ET discussion points
7. Pro forma completed for each business areas to facilitate ET discussion in November 2022 (4 spreadsheets enclosed)