

Agenda
Eighth Meeting
Crown Estate Scotland (Interim Management) Board
22 August 2018
9.00am – 1.30pm

- 1. Standing Items**
 - 1.1 Welcome and Apologies – *Esther Black*
 - 1.2 Declarations of Interest
 - 1.3 Approval of Minutes of Meeting held on 30 May 2018 Attached
 - 1.4 Matters Arising and Action Trackers Attached
 - 1.5 Stakeholder Meetings Verbal
- 2. Health & Safety**
 - 2.1 Health & Safety Report BD(2018)8.1
- 3. Management Reports**
 - 3.1 Chief Executive's Report BD(2018)8.2
 - * 3.2 Finance Report BD(2018)8.3
 - * 3.3 Business Performance BD(2018)8.4
- 4. Business Management**
 - * 4.1 Proposal for Bonus Scheme 2018/19 BD(2018)8.5
 - + 4.2 Data Protection BD(2018)8.6
 - + 4.3 Records Management Plan BD(2018)8.7
- 5. Strategy and Planning**
 - ** 5.1 Board Forward Programme BD(2018)8.8
 - 5.2 Public Benefits Analysis – Scope BD(2018)8.9
 - ** 5.3 Rural Strategy – discussion BD(2018)8.10
- 6. Governance**
 - ** 6.1 Annual Report and Annual Accounts BD(2018)8.11
- 7. Committee Reports**
 - * 7.1 Audit & Risk Committee Minutes (24 July 2018) Attached
 - * 7.2 Investment Committee (31 July 2018) Attached
- 8. Any Other Business**
- 9. Dates of Next Meetings**

2/3 October 2018
27 November 2018

*This item will be treated as closed business and the paper exempt from publication in terms of s33(1)(b) of the Freedom of Information (Scotland) Act 2002

** This item will be treated as closed business and the paper exempt from publication in terms of s29(1)(a) of the Freedom of Information (Scotland) Act 2002.

+ This item is for noting

Minutes for	Eighth Board Meeting	BD(2018)08
Meeting date	22 August 2018	
Security classification	Restricted	
This document contains commercially sensitive and confidential information and may relate to the formulation of policy.		
Minutes for the meeting of the Board of Crown Estate Scotland (Interim Management) held at Wick on Wednesday, 22 August 2018 at 9am		

Present:

Amanda Bryan	Chair
Dr Michael Foxley	
Andrew MacDonald	
Robert Mackenzie	
Hugh Raven	
Alister Steele MBE	

In attendance:

Simon Hodge	Chief Executive
Lynne Higgins	Head of Finance & Commercial
Andrew Wells	Head of Property
Helen Howden	Governance Manager (minutes)
Fiona Haywood	HR Manager (by telephone for Minute item 4.1)

1. Standing Items

1.1 Welcome and Apologies

The Chair welcomed everyone to the meeting and noted the apology given by Mr Morris.

1.2 Declarations of Interest

There were no declarations of interest in items on the Agenda for the meeting.

1.3 Approval of Minutes of Meeting held on 30 May 2018

The Minutes of the Meeting held on 30 May 2018 were **approved**.

1.4 Action Tracker and Matters Arising

The Board received an updated Action Tracker showing the status, as at 13 August 2018, of the actions agreed at previous Board meetings.

Noted that:

- (a) a position paper for the sponsor team on Crown Estate Scotland's approach to procurement had still to be prepared (action 7/1) however the approach had not been highlighted as a concern by the external auditors.
- (b) the governance review would be on the agenda for the November Board meeting and not conducted out of meeting (action 7/3).
- (c) in respect of action 7/8 the Board wish to benchmark with other organisations and future surveys should include the standard questions used other public bodies to allow such comparisons to be made.

Action: EB (8/1)

- (d) in respect of action 7/11 a new property management system had been introduced by the managing agents which would contain a detailed record of every property and that this would be evidenced through an audit to be conducted at the end of August.

1.5 Stakeholder Meetings

Noted that:

- (a) the Chair and Chief Executive were to meet with Scrabster Harbour Trust following the Board meeting and to meet with the Cabinet Secretary for the Environment, Climate Change and Land Reform on 5 September 2018. The Cabinet Secretary would then be at Bell's Brae to meet staff the following day.
- (b) the Chief Executive had met with the incoming Chief Executive of Scottish Enterprise and attended a dinner with the Duke of Rothesay's private secretary.
- (c) as a member of the Scottish Government Environment and Economy Leaders Group, the Chief Executive was engaging with other bodies who were seeking to improve the co-ordination of policy on natural resource management. This includes a workstream to align the National Planning Framework and the Land Use Strategy.

2. Health & Safety

2.1 Health & Safety Report (BD(2018)8.1)

Noted that:

- (a) work was continuing to ensure that an appropriate health and safety culture was embedded throughout the organisation. Staff were now required to attend a mandatory training session, with attendance being recorded. The health and safety consultant is undertaking a "health check" of procedures both internally and with the managing agents.

- (b) three minor accidents had been reported and staff were reporting incidents which was an encouraging sign of increasing awareness amongst staff of the importance of recording dangerous occurrences.
- (c) a mobile application (App) to undertake and record risk assessments was being trialled. The Head of Property would ascertain for the Board that the data could be retrieved in the future and could not be over-ridden once complete.

Action: AW (8/2)

3. Management Reports

3.1 Chief Executive's Report (BD(2018)8.2)

Noted that:

- (a) the sale of Auchenhalrig Farm, which had attracted Ministerial correspondence and stakeholder comment, had been carefully managed with proactive engagement, including with agricultural colleagues in the Scottish Government. Offers for the farm had been received following the setting of a closing date and negotiations for the sale were ongoing.
- (b) Marine Scotland were currently consulting on an application from Marine Biopolymers Ltd for a commercial licence to mechanically harvest kelp on the west coast. Crown Estate Scotland had offered a limited option to the company to help develop sustainability and engagement protocols. Ministers have been briefed. The Chair in her role as Chair of the Isle of Eigg Heritage Trust, had removed herself from the Trust's discussion on the consultation in order to avoid potential conflict of interest.
- (c) discussions with PCS were ongoing in relation to the 2018/19 pay claim which covered a range of areas on pay and conditions. The intention was that discussion on conditions would form part of the pay and reward review which was about to commence following the appointment of consultants.
- (d) the sponsor team had undertaken a refresh of the Framework Document which had resulted in additional detail being added. Following receipt of the proposed Document the Chief Executive had had a constructive meeting with the sponsor team to discuss the sponsor relationship and questions of risk transfer. Crown Estate Scotland's responses to the refreshed Document had been submitted.
- (e) thirteen proposals for local management pilots had been received as at 16 August and initial review showed a range of projects around the coast. The Crown Estate Scotland Stakeholder Advisory Group would be asked for their views on the proposals and an internal assessment conducted to inform the decision as to which should proceed to Stage 2 of the application process. If any proposals did not fit the criteria set out in the guidance assistance would be offered to determine the best way forward.
- (f) staff turnover remains above target and whilst a focus for the HR team was not a cause of immediate concern to the Chief Executive. Further detail would be provided to the Board on rates of turnover, reasons for turnover and length of service of leavers, as well as distinguishing between planned and unplanned turnover.

Action: EB (8/3)

3.2 Finance Report (paper BD(2018)8.3)

Noted that:

- (a) actual turnover was broadly on target at the end of the first quarter. Net surplus (before transfers to capital) was slightly ahead of budget, due in part to underspend in direct and indirect expenditure. Not all the underspend was likely to result in savings for the full financial year however the profile of budgeted expenditure would be kept under review and updated where required. The re-procurement of legal services had had a positive impact on budgets.
- (b) capital receipts were slightly behind budget and capital expenditure was ahead, mainly as a result in delays to the start of projects.
- (c) the budget process for 2019/20 was about to commence and would be combined with a reforecast of the current budget at the end of the second quarter.
- (d) the final payment to the Scottish Consolidated Fund from the 2017/18 surplus would be made in September along with the first payment for 2018/19.
- (e) work was ongoing to provide HMRC with the information they had requested in support of the options to tax.
- (f) the aim of securing regular production forecasts from the finfish sector was still to be taken forward.

3.3 Business Performance (paper BD(2018)8.4)

Noted that:

- (a) the internal audit plan for the current year would include an operational audit of managing agent activity. This is separate for any strategic review on the use of managing agents.

Agreed that:

- (a) the dates on the performance tracker should be reviewed to ensure they were correct.

Action: EB (Action 8/4)

4. Business Management

4.1 Proposal for Bonus Scheme 2018/19 (BD(2018)8.5)

CLOSED BUSINESS – COMMERICALLY CONFIDENTIAL

The Head of Finance & Commercial, the Head of Property and the Governance Manager left the meeting at this point and the HR Manager joined by telephone.

The Board reaffirmed the strategic direction to introduce a new pay and conditions package for the organisation and were advised that consultants have now been appointed to undertake this work. For 2018/19 the Board agreed parameters for subsequent discussion and negotiation with the PCS.

The HR Manager was thanked for her contribution and the telephone call ended. The Head of Finance & Commercial, the Head of Property and the Governance Manager re-joined the meeting.

4.2 Data Protection (paper BD(2018)8.6)

Noted that:

- (a) Mr Mackenzie had agreed to be the Board member with a specific remit for data protection matters.

4.3 Records Management Plan (paper BD(2018)8.7)

The Board **noted** the content of the paper and that further reports would be brought to the Board in due course.

5. Strategy and Planning

5.1 Board Forward Programme (paper BD(2018)8.8)

Noted that:

- (a) the programme brought together several different workstreams, looking at outcomes to inform the next corporate plan and deliver the organisation's contribution to civic Scotland. The cycles of Committee meetings and work plans for these meetings would be reviewed to fit with the forward programme.
- (b) the Board welcomed the opportunity to be engaged in the development of strategy at an early stage.
- (c) the Board accepted the proposal to consider the role of managing agents as part of a wider skills and capacity review programmed for spring 2019.

Agreed that:

- (a) it would be useful to include in the plan a programme of engagement associated with Board meetings.

Action: SH (8/5)

- (b) the Chair would hold separate discussions with members on stakeholder engagement to gauge interest in specific areas.

Action: AB (8/6)

- (c) a forward programme for the Audit and Risk Committee and the Investment Committee be developed to fit with the Board forward programme.

Action HH (8/7)

5.2 Public Benefits Analysis – Scope (BD(2018)8.9)

This scoping session was informed by a preliminary analysis of the public benefit contribution of each asset class, and an indication of potential for growing public benefit delivery. Posters were also prepared to depict Scottish Government policy priorities as one basis of potential to grow public benefit delivery.

Noted that:

- (a) this project was crucial for establishing the evidence base for future decision making. The project built on the Natural Capital Protocol and Our Contribution work instigated by the Head of Property. The project would enable Crown Estate Scotland to demonstrate the extent of public benefit delivered, and aid decision making to grow public benefit delivery.
- (b) it was vital that the work have a practical application and that the outputs be able to be integrated into future decision making in the organisation.
- (c) a project manager had been appointed on a fixed term contract and an initial budget of £200k allocated over two years.
- (d) Crown Estate Scotland had assets which would deliver across all areas of the National Performance Framework but there were four areas which were particularly relevant: we have a globally competitive, entrepreneurial, inclusive and sustainable economy; we live in communities that are inclusive, empowered, resilient and safe; we have thriving and innovative businesses, with quality jobs and fair work for everyone; and we value, enjoy and enhance our environment.
- (e) the Board were being asked to provide comment and guidance on the indicative current and potential contributions of each asset and to provide advice on the level of engagement the Board would like with the project.
- (f) existing evidence would be gathered where appropriate and the collection of new evidence commissioned only where it is believed there will be value to be added. Capacity of the organisation to deliver the project was under review and would be kept under review.
- (g) the work undertaken to scope the project had identified the characteristics of the asset classes and the differences in scale of contribution and impact depending on whether they were viewed at a national or a local level.

Agreed that:

- (a) it was important to capture the baseline evidence and to build on that.

Action: SH (8/8)

- (b) Board members were keen to engage with the project and would self-select the areas of specific engagement across asset class and contribution type. The project manager would contact Board members once she had started work to discuss this with them.

Action: SH (8/9)

- (c) the Programme Initiation Document was the appropriate basis for formal project start-up.

Secretary's Note: following the Board meeting the project was assigned the name "Value Project"

5.2 Rural Strategy (BD(2018)8.10)

Noted that:

- (a) the Board were being asked to identify the main issues and strategic priorities to inform the future rural strategy.
- (b) the Board identified the top issue in each of the categories presented to them as being:

Top 5 Issues

Category	Issue
Socio-economic	Who benefits? E.g. individual tenants, local communities, Scotland.
Financial	Capital subsidisation requirements (to or from rural portfolio)
Operational	Criteria for core and non-core
Market	Impacts of Brexit
Environmental	Protecting and enhancing natural capital and wildlife management

- (c) this feedback would be used to shape development of a draft rural strategy for public consultation, which would be put to the November Board meeting.
- (d) the Board recognised that further public benefit analysis work will be required to better evaluate the contributions of the rural estates and inform future directions. It was nonetheless agreed that this iteration of a strategy be based on current understanding, with the next iteration in around three years time being informed by the fundamental evaluation work.
- (e) the Board agreed the importance of understanding the business characteristics of each rural asset type, as well as how these combined in each of the four rural estates. Any implicit cross-subsidisation will need to be clearly explored with the aim that each asset type is tested on its own contribution to financial and public benefit objectives.

6. Governance

6.1 Annual Report and Accounts (paper BD(2018)8.11)

Noted that:

- (a) the external audit had been completed and the draft report and accounts delivered to the sponsor team on 1 August. The sponsor team had given some initial comments but had indicated that they required more time to consider the report. The Board were keen to action the finalisation of the report and accounts to allow them to be laid in Parliament in September and then published.

Agreed that:

- (a) the Board confirmed their satisfaction with the content of the report and accounts and that they should be signed immediately after the meeting by the Chair and Chief Executive.
- (b) thanks were due to the Head of Corporate Operations and the Head of Finance and their teams for the work involved in preparing the report and accounts.

7. Committee Reports

7.1 Audit & Risk Committee

Noted that:

- (a) the focus of the meeting held on 24 July had been the annual report and accounts. The Committee had reviewed the draft external audit report which had now been finalised and signed.
- (b) the internal audit plan for the year had been finalised and would start with assurance mapping and an audit of the managing agents.
- (c) risk appetite had been considered again and the Committee were broadly happy with the approach being taken by the Chief Executive. Risk management and risk appetite would be considered by the Board at the October meeting.
- (d) the Chair had requested that the internal auditors review the Framework Document and relationship with Scottish Government and that this would be considered when the Committee were considering the internal audit plan for 2019/20.

7.2 Investment Committee

Noted that:

- (a) at its meeting on 31 July the Committee had focused on a review of capital and income expenditure. The Committee were recommending to the Board that, until a rural

strategy was in place, there should not be any further active engagement in whole farm sales and that this should be reflected in the 2019/20 budget.

- (b) the Committee felt that it would be appropriate to look to develop value from the current asset base rather than to look for opportunities to acquire further fully developed assets. The work to fulfil the business plan objective to identify and complete suitable acquisitions to grow the urban portfolio should be refocused towards an analysis of opportunities to realise development potential.
- (c) further discussion had taken place on a potential sale of fishings and it had been agreed that the negotiations with the potential purchaser should be concluded by the autumn. If agreement on heads of terms for the sale could not be reached, then the Committee would reconsider the position for the future of the fishings.
- (d) the Committee had been advised of a potential opportunity to acquire a rural estate off-market and had asked for further information on this to consider it in greater detail.

Agreed that:

- (a) there should be no further active engagement in farm sales in the current financial year and that opportunities to grow the urban portfolio should be refocused towards an analysis of opportunities to realise development potential. The Head of Corporate Operations would liaise with the sponsor team in relation to Corporate Plan aspects.

Action: EB (8/10)

- (b) as the Chief Executive did not consider that the off-market opportunity was a viable option for Crown Estate Scotland at the current time, this should not be pursued further.

8. Any Other Business

8.1 Board Recruitment

Noted that:

- (a) a request had been made via the sponsor team for the reappointment of three Board members for a second term and for the recruitment of two additional Board members. A meeting to discuss the recruitment process had been arranged for 5 September 2018.

Amanda Bryan
Chair, Crown Estate Scotland (Interim Management)

Date

Crown Estate Scotland (Interim Management) Action Tracker – 2018

Updated as at 13 August 2018

Actions from the fifth meeting of the Board (30 January 2018)

No.	Action	Responsibility	Timescale	Status

Actions from the sixth meeting of the Board (28 March 2018)

No.	Action	Responsibility	Timescale	Status
Action Tacker and Matters Arising				
6/3	Annual work plan for Investment Committee to be prepared	HH	8 May 2018 (date of next Investment Committee meeting)	Draft work plan still to be prepared.
Health & Safety Report				
6/5	Trend information to be included in future reports	AW	August Board (date at which next quarterly report will be available)	On-going
Offshore Wind Leasing				
6/10	Time to be arranged for the Board to discuss the development of the offer with the Senior Manager E&I before final proposals signed off.	HH	Before October 2018	A session has been tentatively arranged for 21 August in Wick. Once finalised this action will be closed.

Investment Committee				
6/11	Board required more granular information on asset classes and performance as they prepared for the enactment of the Scottish Crown Estate Bill and to optimise the estate for the future. Further discussions would take place to identify how this information would be presented.	LH/AW	Before next Investment Committee meeting (tbc – early August)	On-going.

Actions from Seventh Board Meeting (30 May 2018)

No.	Action	Responsibility	Timescale	Status
Matters Arising				
7/1	Crown Estate Scotland will clarify with the Scottish Government any procurement provisions in the Scottish Public Finance Manual where a variance may be required for CES. This clarification is of immediate importance in relation to the auditor's commentary in the CES end of year accounts. A further note, laying out the position of Crown Estate Scotland and their understanding of the position, should	LH/SH		

	be prepared and sent to the sponsor directorate			
7/2	the briefing paper on the Fishings (action 6/8) had been sent to the sponsor Directorate and a response from the Cabinet Secretary is awaited. An update would be provided to the Board once a response had been received.	AW		Response received and intimated to Investment Committee – action complete.
7/3	the Board wanted to consider whether meetings should be held in public and that this should form part of the corporate governance review due to be brought to the Board in August.	HH	22 August 2018	Agreed with Chair that this will be deferred and possibly circulated electronically.
7/4	the Chair had met with the Corra Foundation and would prepare a note for the Board on this.	AB		
Crown Estate Scotland Bill - Update				
7/5	some initial discussions had taken place with the sponsor Directorate to discuss what additional financial flexibility might benefit the management of the assets and further meetings would be held to take this forward. An initial note of what might be beneficial had been prepared and the Head of Finance and Commercial would circulate that to the Board and comments on the draft would be welcomed.	LH	Post-Board meeting.	Circulated. Action complete
Business Performance				

7/6	a report from the Chief Executive be provided to the Board in future meetings as a standing item	SH	22 August 2018	On agenda. Action complete
Staff Survey				
7/7	feedback would be provided to the Board following the all staff meeting on 1 June, at which the survey and future actions would be discussed	EB	June 2018	Update issued. Action complete
7/8	although immediate comparators had not yet been identified further research should be undertaken to benchmark Crown Estate Scotland against other organisations	EB		No information has yet been obtained. The HR Manager is meeting two more organisations to discuss. The priority is however to compare year-on-year information for the organisation. Action complete
7/9	the Board wanted to assist in any way they could and staff should be made aware of this. A session for staff to meet the Board will be arranged during the November Board meeting	HH	November 2018	On-going
Pay and Reward Review				
7/10	the Board supported the proposed approach to the 2018/19 pay award and noted the intention to bring a paper back to Board in August on a 2018/19 bonus scheme. The Board supported the proposed approach to the strategic review of pay and reward as set out in the paper.	SH	22 August 2018	On agenda. Action complete
Managing Agents				
7/11	the Head of Property would provide further information to the Board on the	AW	22 August 2018	Information in Health & Safety paper. Action complete.

	way in which the agents reported to the organisation on health and safety issues, and provide evidenced assurance of health and safety management and culture.			
Investment Paper				
7/12	the Investment Committee will be asked to review the investment objectives and cashflow for 2018/19 and 2019/20.	SH/AW/LH	Next Investment Committee (date to be confirmed)	Meeting held on 31 July and information presented to Committee. Action complete
Pilots Scheme Consultation Feedback				
7/13	the Head of Corporate Operations should look again at the wording around the scope of the scheme, particularly to avoid discouraging any near shore wind projects	EB	Before publication	Action complete
7/14	their potential role will be discussed with the Stakeholder Advisory Group, including management of any conflicts of interest	EB	Before publication	Action complete
7/15	the launch of the scheme should be publicised as widely as possible and the process adjusted to make it more flexible to allow receipt of late proposals	EB	On publication	Scheme advertised through a variety of different channels. Action complete
Board Priorities 2018/19				
7/16	A list of the essential projects which must be undertaken and the timescales should be prepared and time allowed	SH	22 August 2018	On Agenda. Action complete

	during the visit to Wick for the Board to discuss this issue in detail.			
Annual Report – update on content and structure				
7/17	the annual report needs to refer to the establishment of the Board; the achievements of the first year of operation; and include more visuals to increase accessibility to the report.	EB	Before signing of annual report	Annual report substantially complete. Action complete
7/18	whilst the Chair is on annual leave, the Chief Executive will approve the final draft of the Performance Report and Accountability Report and the Chair of the Audit & Risk Committee will approve the final draft of the Accountability Statement. The full report will be approved by the Audit & Risk Committee, on behalf of the Board, before submission to the sponsor Directorate on or before 1 August 2018.	SH	1 August 2018	Action complete

Board	Eighth Board Meeting	BD(2018)08
Meeting date	22 August 2018	
Paper title	Health & Safety Review BD(2018)8.1	
Security classification	Unclassified	
Presented by	Andrew Wells	
Author	Andrew Wells	
Annexes	Annex A - Health & Safety Performance - April 2018 to June 2018	
Recommendation	The Board is invited to review and comment on this report and Annex A	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

Background

1. Health and Safety (H&) management continues to be embedded throughout Crown Estate Scotland's operational management activities.
2. This paper provides an update to the Board regarding H&S management activities / performance for Q1 2018/19 reporting year.
3. As the Health and Safety framework document spells out, there is a legal, financial and moral obligation of the organisation to comply with health & safety legislation. The framework spells out the PLAN, DO, CHECK, ACT approach and this paper will discuss how those 4 points have been implemented in the last 3 months.

Discussion - PLAN

4. Andrew Green of Green's of Haddington Ltd continues to offer support. The terms of business have been renegotiated and a letter of appointment for a further one year put in place.
5. The Health & Safety Consultant has met regularly the Head of Property and with the Health & Safety Coordinator. He continues to attend the Glenlivet and Fochabers Estate on a quarterly basis, sits on the Health & Safety Committee, is available for consultation at any time and is involved in the review and update of the policies and procedures.
6. Further work on policies specific to the rural, coastal and mineral assets have been produced

7. Risk Assessments are being reviewed by the Health & Safety Coordinator to ensure that they are relevant
8. A specification for carrying out tree surveys as part of the tree management plan for roadside and other trees is being developed to ensure a common approach across the estate regardless of who carries out the assessment. The management of tree safety is a responsibility of Savills for the agricultural estate and with the CES Forest Manager for the in-hand forest areas.
9. A draft Staff Health & Safety Manual for the Fochabers workforce has been developed with a view to develop similar manuals for the Glenlivet workforce and the Bells Brae Office staff.
10. These aim to summarise the health & safety arrangements and best working practices within each workplace into one simple document that can be given to each member of staff.

Discussion – DO

11. The Health & Safety Committee met on 18th July 2018. A range of operational matters were discussed with a focus on the finalisation and roll-out of the main H&S policies and consideration of the sub-policies due for completion in 18/19.
12. A mandatory “Lunch & Learn” session was carried out on Friday, 27 July 2018 providing general H&S guidance and details of the main policies.
13. An audit/‘health check’ of Managing Agents and of each estate / workplace is due to take place in August 2018 by the Health & Safety Consultant. The report will highlight any significant gaps that require attention regarding management systems, processes, compliance with policies, records management and risk assessments.
14. Savills are introducing a new property management system that will significantly improve H&S and compliance records management. This is scheduled for going live sometime in Q2.
15. The Health & Safety Consultant, accompanied by Paul Bancks has visited Rhu Marina and carried out a review of health & safety issues from Crown Estate Scotland’s perspective.

Discussion - REVIEW

16. Accompanying dashboard summarises the accidents recorded in the first quarter of the 2018/19 financial year.
17. Three very minor accidents to Crown Estate Scotland staff which despite all happening on the Glenlivet Estate, shows no emergence of a pattern.
18. No notifiable accidents and no accidents that resulted in lost time.

Discussion – ACT

- 19. The use of modern technology gathers pace, devices to assist in the management of lone workers have been ordered and issued along with specific training in their use.
- 20. A trial in using an App to carry out site specific risk assessments by the Fochabers and Glenlivet workforce is being undertaken which will reduce reliance on paper.

Legal implications

- 21. By using the PLAN, DO, CHECK & ACT principles from the individual task level all the way to the strategic management of health & safety, it can be demonstrated that health & safety is being actively managed by Crown Estate Scotland.

Risk

- 22. In addition to being able to show compliance with the regulations, the risk (likelihood and consequences of an accident occurring) has also been reduced as is the risk of being in breach of legislation.

People considerations

- 23. People are the most important asset of Crown Estate Scotland and it can be demonstrated that Crown Estate Scotland is a good employer.

Reputational / PR implications

- 24. None.

Annex A

2018/19

Accidents to staff reported	quarter 1	quarter 2	quarter 3	quarter 4	total
slips/trips	1	0	0	0	1
Manual Handling	0	0	0	0	0
struck by moving object	2	0	0	0	2
falls	0	0	0	0	0
violence	0	0	0	0	0
strike against fixed object	0	0	0	0	0
Contact moving machinery	0	0	0	0	0
Struck by moving vehicle	0	0	0	0	0
electrocution	0	0	0	0	0
other	0	0	0	0	0
Total	3	0	0	0	3

RIDDOR Reportable	quarter 1	quarter 2	quarter 3	quarter 4	total
Fatal	0	0	0	0	0
Major	0	0	0	0	0
Over 7 day	0	0	0	0	0
N/A	3	0	0	0	3
Total	3	0	0	0	3

Incidents / Close shaves	quarter 1	quarter 2	quarter 3	quarter 4	total
struck underground services	0	0	0	0	0
overturn vehicle	0	0	0	0	0
falling object	0	0	0	0	0
other	0	0	0	0	0
Total	0	0	0	0	0

Location of accidents	quarter 1	quarter 2	quarter 3	quarter 4	total
Bells Brae	0	0	0	0	0
Glenlivet	3	0	0	0	3
Fochabers	0	0	0	0	0
Whitehills	0	0	0	0	0
Applegirth	0	0	0	0	0
Total	3	0	0	0	3

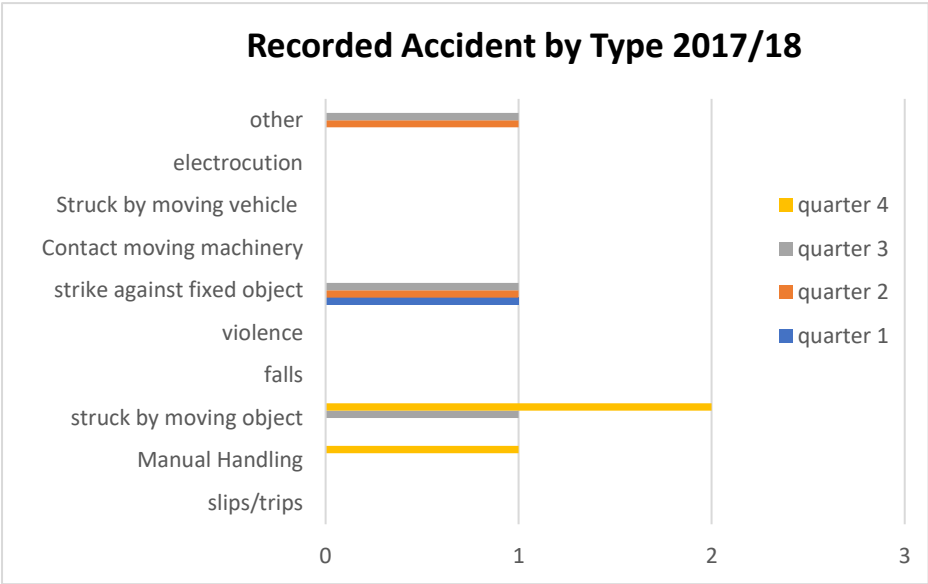
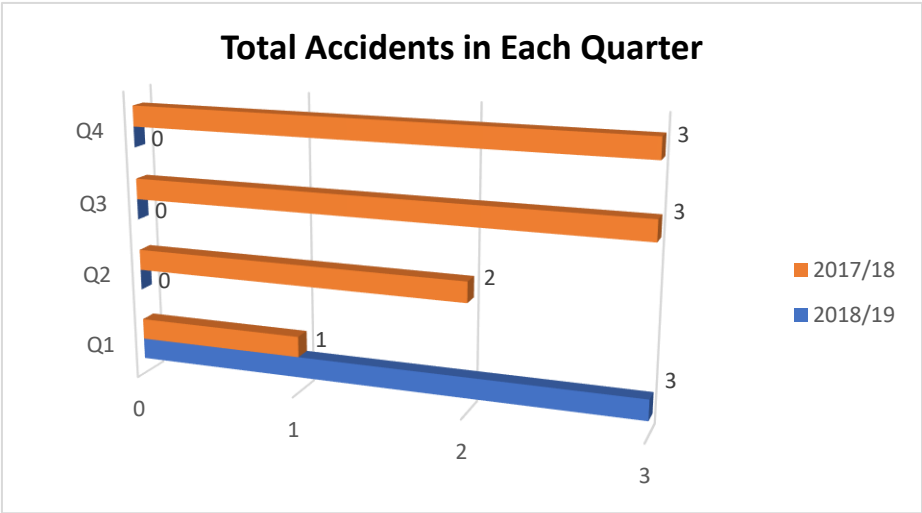
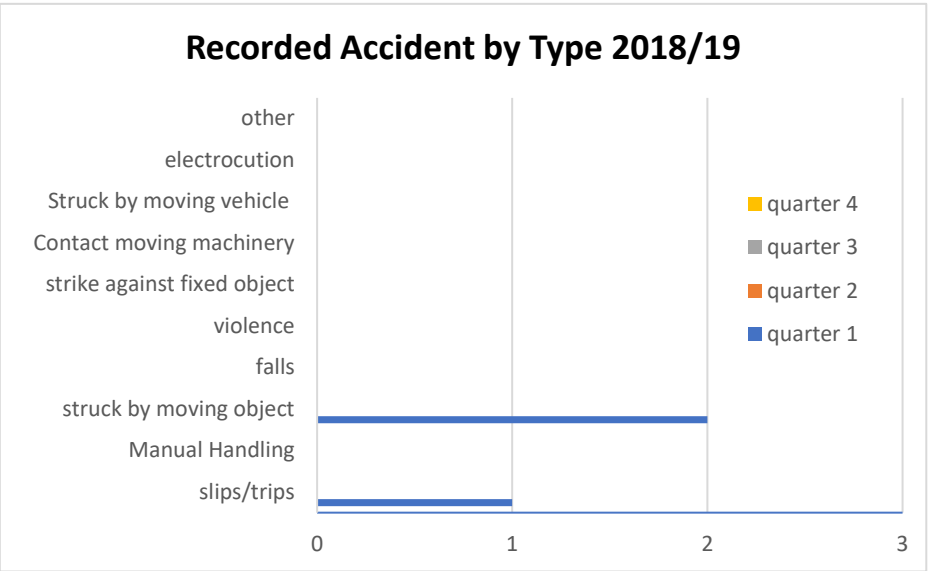
Sickness / absence	quarter 1	quarter 2	quarter 3	quarter 4	total
accident recovery					0
stress					0
sickness					0
diarrhoea					0
flu / cold					0
parent / child / partner					0
food poisoning					0
ocupational asthma					0
dermatitis					0
other					0
unknown					0
Total	0	0	0	0	0

Sickness duration (working day)	quarter 1	quarter 2	quarter 3	quarter 4	total
< 3 day					0
< 5 days					0
< 10 days					0
> 11 days					0
Total	0	0	0	0	0

Total Accidents by Quarter

	2017/18	2018/19	
Q1	1	3	4
Q2	2	0	2
Q3	3	0	3
Q4	3	0	3
Total	9	3	12

HEALTH & SAFETY PERFORMANCE 2018/19



Summary to Date - 13 July 2018

- 3 minor accidents in First quarter of 2018/19
- 1. Scraped leg on branch when it moved as it was stood on
 - 2. Turned ankle on rough ground
 - 3. Hit thumb with hammer

Board	Eighth Board Meeting	BD(2018)8
Meeting date	22 August 2018	
Paper title	Chief Executive's Report BD(2018)8.2	
Security classification	Unclassified	
Presented by	Simon Hodge	
Author	Hannah Hendron/Esther Black	
Annexes	n/a	
Recommendation	The Board is invited to note the content of this paper	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

1. Corporate priorities and delivery

Launch of the Local Management Pilots Scheme

- Took place 20 June with the CE speaking at the SeaScotland conference and Cabinet Secretary covering in her speech (pre-recorded video) at that same event. Strong media, social media and e-newsletter pick up (see email sent to Board 26/06/18)
- Stage 1 closes 16 August. There are currently 13 scheme proposals actively in conversation with us. We will table an update on applications received.

New offshore wind leasing

- Launch of Discussion Document in May generated strong national and global coverage across mainstream and trade media.
- Nearly 90 people in total attended five events (held in Glasgow, Edinburgh, London and Inverness) designed to inform responses to the Discussion Document. A summary is available on the Crown Estate Scotland website.
- Joined up approach with Scottish Government consultation on areas of search (more below).
- Coordinating with a Marine Scotland consultation on areas of search, and a new Crown Estate lease round.
- Marine Scotland proposed areas of search excludes most of Scottish territorial waters and focus on deep water at distance from landfall. We are engaging with Marine Scotland on the potential impacts and implications for the future of offshore wind in Scotland.

First annual report and accounts

- Whilst covered elsewhere in the agenda, I wish to recognise the hard work and effort of the team in producing Crown Estate's Scotland's first annual report and accounts. Given the complexity and breadth of Crown Estate Scotland's business and the uniqueness of our legal framework, this has been a major exercise for us, auditors and Scottish Government. It has established a solid foundation for future annual reporting. My thanks to all involved.

2. Significant activities

Tenanted farms

- The marketing of Auchenhalrig Farm generated stakeholder reaction and Ministerial correspondence. The principal concern is the loss of a farm tenancy.
- We have engaged proactively with tenant farmer representatives and the SFTA and liaised closely with Scottish Government on ministerial correspondence relating to both farms sales and re-letting.
- We have also developed positive media stories on our budgeted investment in rural estates, a young farmer taking up tenancy and Natural Capital assessments.
- There is a growing understanding of the difficult financial situation in relation to the Scottish Crown Estate farming portfolio, which is currently showing a cash deficit.
- The commitment to wide engagement on development of a rural strategy to guide further activity on the rural estates has been welcomed.

Aquaculture

- The team is working with Michael Foxley and Hugh Raven towards a board position paper on marine finfish farming. The aim is to provide strategic focus and cover for our work towards a growing, sustainable and socially valued future for the finfish sector. This includes consideration of our role as landlord to all of Scotland's marine fish farms.

Seaweed

- Business stakeholders wish to see operational scale harvesting of wild seaweed as a basis for growing Scotland's seaweed processing industry.
- Marine Scotland is in the process of concluding an Strategic Environmental Assessment, subject of a public consultation, and HIE has led industry development plan.
- Planning for Crown Estate Scotland to offer this opportunity to the market in the autumn, in a way that encourages inward investment into Scotland. We have also offered a limited option to Marine Biopolymers to help develop sustainability and engagement protocols.
- Working closely with Marine Scotland. Crown Estate Scotland will focus on managing competition requirements.
- The Marine Scotland licensing process for specific proposals will provide assurance on sustainability issues, and this will also require engagement with local communities.
- Marine Scotland are currently consulting on a licence application from Marine Biopolymers Ltd.

3. People

2018/19 pay offer

- Following receipt of the PCS pay claim earlier this year discussions relating to the pay award for 2018/19 are ongoing.
- We met with PCS representatives on 12 July to discuss their pay claim, which covers a range of areas relating to pay and conditions including cost of living increase. We will formally respond to PCS further to these discussions outlining our pay offer to staff with a view to agreeing the pay award for 2018/19.

Pay and conditions review

- We held an all staff session on 14 June to provide an update to staff and provide opportunity for questions. An ITT for consultancy support was published through the Public Contracts Scotland on Friday 20 July. We expect to appoint by the end of August.

Staff changes

- Staff turnover is above target and recruitment remains a focus for the HR team.
- The recruitment campaign for a Head of Marine (18-month FTC) was launched on 8 August.
- An offer has been made to appoint a Public Benefits Project Manager.
- Reporting lines have been adjusted for the Local Pilots Manager to report to the Head of Property and the Governance Manager to report to the Head of Corporate Operations. The Governance Manager will continue to report directly to the Chief Executive on data protection matters and to the Chair on board governance.

Staff survey

- The Executive Team has agreed an action plan in response to the staff survey, which was helpfully informed by an all-staff workshop session.

4. Scottish Government and public bodies

Scottish Crown Estate Bill

- Passed Stage 1 vote in the Chamber (see briefing sent to Board 19 June 2018). Stage 2 will take place early Sep-early Oct.
- Executive Team met with sponsor team to discuss Scottish Government response to Environment, Climate Change and Land Reform Committee's Stage 1 Report. Key issues include Committee recommendation of ban on sale of seabed, staff engagement, requests related to 'records of condition', and the degree to which managers are required to deliver sustainable development and related factors.
- We await announcement of the new ECCLR Committee Convener and will introduce ourselves to that MSP when appointed.

Framework document and sponsor team

- Crown Estate Scotland has been presented with a revised Framework Document. Revisions propose more detail and controls around procedural requirements. I met with Deputy Director and Head of Sponsor Unit to discuss how the sponsorship relationship can best help Crown Estate Scotland in its mission of 'innovating with land and property to create prosperity for Scotland and its communities'. We have fed back proposed edits in this light.

Crown Estate Scotland vires

- We have been exploring statutory cover for future business activities with Scottish Government and our legal advisors.
- We have developed business scenarios to test vires involving business ventures with communities, tenants and other partners that will help Crown Estate Scotland fulfil its vision.
- We have defined a breadth of opportunities under current vires and several aspects that would benefit from new legislative cover around activity involving assets other than the Scottish Crown Estate and activities deemed as trading or operating.

Board	Eighth Board Meeting	BD(2018)08
Meeting date	22 August 2018	
Paper title	Finance Report BD(2018)8.3	
Security classification	Restricted	
This document contains commercially sensitive and confidential information and may relate to the formulation of policy.		
Presented by	Lynne Higgins	
Author	Lynne Higgins	
Annexes	Annex A: Summary Revenue Performance by division Annex B: Summary Capital Performance Annex C: Balance Sheet Annex D: Combined Cashflow Annex E: Dashboard	
Recommendation	The Board is invited to note and comment on this report and the Annexes The Governance Manager or Chair should be advised if the contents of this paper give rise to any conflict of interest	

Revenue performance for the 3 months to 30 June 2018

Attached at Annex A is the summary revenue performance.

Headlines:-

- **Actual turnover was £3.9m against a target of £4.0m** – there are small variances by division but overall turnover is broadly on target.
- **An underspend in direct expenditure (actual £0.7m against a budget of £0.9m)** – areas of underspend include repairs (a provision for emergency repairs in Coastal has not been utilised), legal and professional fees (Rural and Coastal) and salaries (vacancy periods).
- **Indirect expenditure of £0.9m, budgeted £1.0m** – Consultancy fees are underspent - this is due to timing of instructing and undertaking activities and a reduction arising from work being brought inhouse, rather than outsourced. Indirect staff cost savings from vacancies form part of the underspend.
- **Net profit (before transfers to capital) of £2.3m against a budget of £2.1m.** It is considered that a proportion of the underspend is not permanent and likely to be utilised within the financial year. The profile of budgeted expenditure will be reviewed for accuracy and updated where necessary.

Capital Account to 30 June 2018

Attached for information at Annex B is the summary capital performance and analysis.

Headlines:-

- **Capital receipts for the period of £2.1m, budgeted at £2.4m** – the main contributor is the Rural division where, although the composition of transactions differs from budgeted disposals, sales have been carefully managed to ensure capital cashflow. Anticipated income in the E&I division from the Meygen project has not yet been forthcoming. It is likely that this income will be significantly lower than anticipated this financial year due to operational problems of the project. This has recently been advised and is being explored with the developer.
- **Capital expenditure of £0.4m, compared to £1.7m budgeted** – the key components of the underspend arising from delays in initiating the stabilising works at Blairfindy Castle and progressing the breakwater works at Rhu Marina (the latter due to difficulties in obtaining third party funding, considered critical to enable the project to move forward). In addition proposed capital works on 3 rural properties have been slightly delayed but are now all underway and these costs will be fully incurred during the year.
- **In summary, the capital net position is significantly ahead of budget** - net capital **divestment** of £1.6m for 3 months to 30 June 2018, budgeted net **divestment** (for the same period) of £0.7m.

Balance Sheet

The balance sheet as at 30 June is presented, along with the balance sheet at 31 March 2018 for comparative purposes (Annex C). Trade debtors' balance is significantly reduced due to the quarterly receipt of rental income from Aquaculture finfish rental (in arrears). The reduction in Other Creditors reflects the recent payment of £2.9m to Scottish Government.

The increase in capital and reserves comprises the net gain/loss on sale of assets (net gain of £0.3m), net distributable profit (£2.0m) and the net movement between capital and revenue (£0.3m for capitalised salaries, mines moiety and the agreed 9% transfer).

Outturn Forecast

It is proposed that a forecasting exercise be carried out, along with the budgeting exercise for 2019/20, for Q2 reporting.

Cash and Cashflow

The balances on the Crown Estate Scotland bank accounts at **30 June 2018** were:-

- Revenue accounts - £2.0m
- Capital account - £11.0m
- **Total £13.0m**

Significant cash movements during Q1 of the financial year 2018/19 were: -

- Crown Estate Scotland made a scheduled profit distribution of £2.9m to the Scottish Government Consolidated Fund on 22 June
- Proceeds were received from the sales of Dinwoodie Green Farm and 16 East Street (Fochabers), together circa. £1.7m
- A clawback sum was received arising from an historic Rural transaction of £0.3m
- Payment to HMRC of £0.4m being Q4 2017/18 net VAT due.

A thorough reconciliation exercise (involving the scrutiny of thousands of transactions) was carried out post year-end on the apportionment of all revenue income during the first year of trading. There remained a balance outstanding to the Crown Estate Commissioners of approx £0.4m at 31 March 2018 - £5m having been collected, apportioned and paid over to CEC during the first year since transfer of the management of the Crown assets.

A Combined Cashflow (giving actuals to June 2018 and projected figures thereafter) is attached at Annex D for information. Significant items of expenditure in the near future include the surrender of Upper Dalhousie Farm (£2.0m, of which 50% cash, 50% property transfer), a renunciation at Applegirth (£0.3m) and programmed capital works at properties at Glenlivet (£0.5m) and Fochabers (£0.2m).

Return of net revenue to the Consolidated Fund

Following the payment of £2.9m (noted above) the remaining payment to Scottish Government for 2017/18 profit (£1.6m) will be made in September, along with the first tranche (£1m) for 2018/19.

Dashboard

A Financial Dashboard is included at Annex E for interest/information. This includes graphical analyses of the results for Q1, closing asset values at 31 March 2018 and calculated income yields for 2017/18.

Taxation Matters

The provision of additional information required by HMRC (in support of each and every Option to Tax for the relevant properties following transfer to Crown Estate Scotland) remains an ongoing exercise.

Financial overview

The bank accounts and cashflow continue to be healthy and revenue performance on target. Capital performance is being managed to ensure that obligations are met and cashflow maintained.

Recommendation

The Board is invited to note and comment on the report and its Annexes.

Board	Eighth Board Meeting	BD(2018)08
Meeting date	22 August 2018	
Paper title	Business Performance BD(2018)8.4	
Security classification	Restricted	
This document contains commercially sensitive and confidential information and may relate to the formulation of policy.		
Presented by	Simon Hodge	
Author	Hannah Hendron / Esther Black	
Annexes	Annex A: Quarter 1 Performance Dashboard Annex B: Business Plan Tracker	
Recommendation	The Board is invited to note this paper and the content of the two annexes.	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

Background

1. The Board is invited to note the dashboard at Annex A summarising performance and activity during the first quarter of 2018/19 and the content of Annex B which tracks performance against the Business Plan 2018-19.

BOARD DASHBOARD

Q1 2018-19



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

Business plan - reporting by exception: Q1 2018-19

NO	ACTION	MEASURE	RAG STATUS	NOTES
2	Develop a tool to better understand, measure and monitor our social, economic and environmental impacts & value to inform future planning and investment decisions. Share with SMEs and other bodies, to drive inclusive and sustainable economic benefit.	Methodology established by September 2018 First full year of measurement complete with results included in annual report (published summer 2019)		This work has now been incorporated into the Public Benefit Analysis project which will run for 2 years
3	Use results from research to drive excellence/best practice in tenant service, and undertake an independent evaluation of the managing agent model	Improvement plan based on 2017-18 tenant research in place summer 2018 Rolling programme of tenant research continued Managing agent model evaluation completed		Managing agents review may be postponed to 2019/20 to take into account operational requirements
7	Progress voluntary Land Registration Completion of assets	First phase of registration completed		Delays caused by pressures on internal capacity and resource constraints at Land Registers
39	Identify and complete suitable acquisition to grow urban portfolio	Acquisition complete delivering revenue increase		Acquisition not proceeding. No plans for substitute at current time.

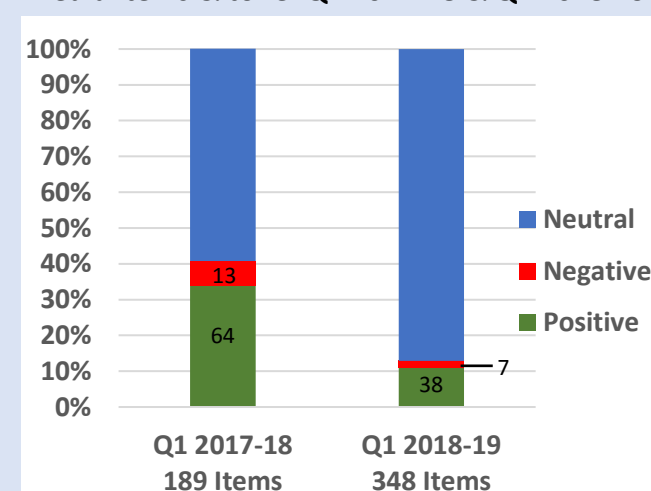
Financials: Q1 2018-19

	YTD ACTUAL (£m)	BUDGET (£m)
Total turnover	3.9	4.1
Net profit	1.9	1.8
Capital receipts	2.1	2.4
Capital expenditure	0.4	1.7

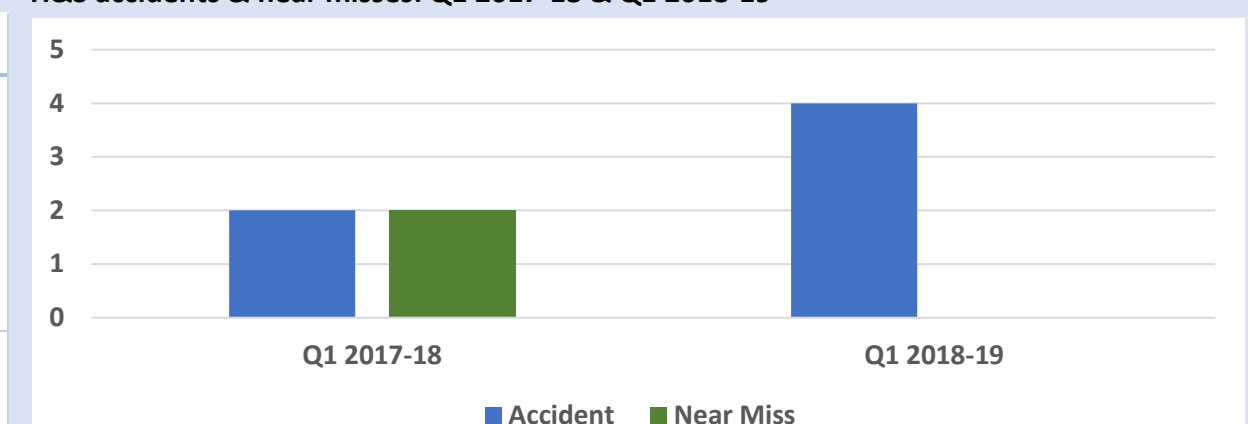
HR Stats: Q1 2017-18 & Q1 2018-19

	Q1 2017-18	Q1 2018-19
Unplanned turnover	2%	8%
Sickness days	59	16
Leavers (including planned leavers)	2	3
New starts	3	6

Media items & tone: Q1 2017-18 & Q1 2018-19



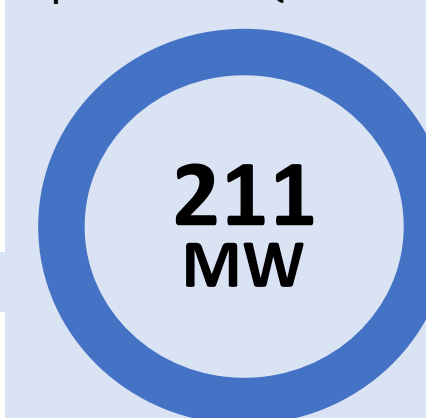
H&S accidents & near misses: Q1 2017-18 & Q1 2018-19



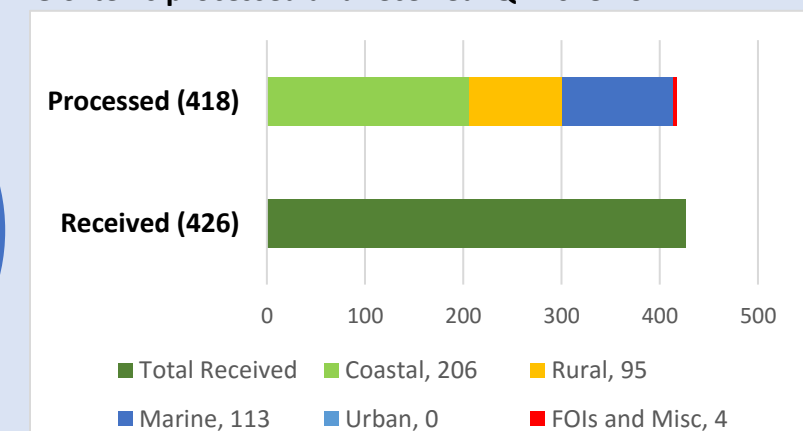
Asset management: Q1 2018-19

	RURAL	COASTAL	MARINE (E&I; Aqua)	URBAN
Sales (value)	£1,803,500	£100	N/A	0
Sales (no.)	3	1	N/A	0
No. of properties	862	N/A	N/A	1
No. of properties vacant	55	N/A	N/A	1
New contracts / leases (approx. revenue pa)	£67,051	£7,000	£80,000	£60,852
Contract / lease events	55	91	6	0
Aged debt	£380,026	£498,146	£2,923,830	£11,927

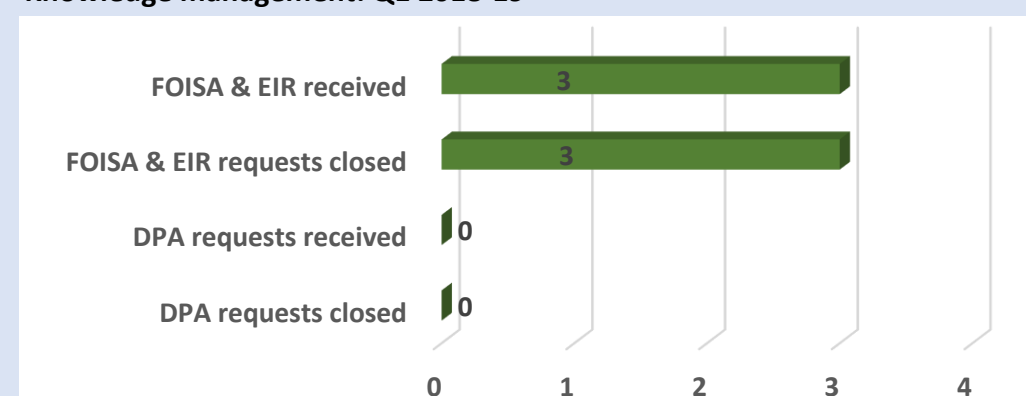
Operational MW Q1 2018-19



GIS items processed and received: Q1 2018-19



Knowledge management: Q1 2018-19



Procurement Activity: Q1 2018-19

	Awarded	Underway	Highlights
Q4 2017-18	4	1	• Significant transactions included Legal services & Internal Audit
Q1 2018-19	2	7	• Significant transactions include two awards relating to Offshore Wind Leasing • Significant ITT's underway include Rural Portfolio Condition Survey & Pay and Reward Consultancy

Annex B: 2018-19 business plan – Q1 progress tracker

Corporate

No	Action	Measure	Start Date	% Complete	Status (Dark green- complete; light green- on track; amber- at risk/delayed; red- target will not be reached)	Comment (if applicable)	Owner
1	Manage budget and implement investment strategy to raise capital for reinvestment; deliver revenue profit (paid to Scottish Government to benefit public finances), and capital growth	£3.3m net capital funds raised in 2018/19 £7.3m revenue profit achieved Scheduled revenue payments to Scottish Government made, portfolio valuation shows capital growth	31/03/19	25		Capital and revenue results for Q1 do not give rise to concern as we progress against targets	LH/SH
2	Develop a tool to better understand, measure and monitor our social, economic and environmental impacts & value to inform future planning and investment decisions. Share with SMEs and other bodies, to drive inclusive and sustainable economic benefit.	Methodology or methodologies established by September 2018 Metrics confirmed and first full year of measurement complete with results included in annual report (published summer 2019) Publish methodology or process on our website	31/03/19	20		This work has now been incorporated into the Portfolio Analysis project which will run for 2 years	AW
3	Use results from research to drive excellence / best practice in tenant service,	Improvement plan based on 2017-18 tenant research in place summer 2018 (to include more	01/04/18	40		Managing agents review may be	EB/AW

	and undertake an independent evaluation of the managing agent model (following Scottish Land Commission's wider review of managing agents in Scotland, due to conclude Spring 2018)	bespoke and targeted tenant communications) Rolling programme of tenant research continued Managing agent model evaluation completed				postponed to 2019/20 to take into account operational requirements	
4	Embed engagement charter throughout the business ensuring best practice in line with National Standards for Community Engagement.	Key local coastal authorities' / partners' satisfaction levels above 70% Complete a minimum of three case studies evidencing community engagement shaping projects by March 2019.	31/03/19	10			EB
5	Enable pilots of local asset management by implementing a robust and transparent process.	Criteria / guidance consulted on, finalised, published and proactively promoted Applications assessed according to timescales agreed following consultation.	31/03/19	50		Pilots scheme launched 20 June 2018	AW
6	Transparent reporting in place with production of our first audited financial statements.	Annual report laid in Parliament	31/03/19	65		Draft accounts going to ARC on 24/07/2018	LH
7	Progress voluntary Land Registration Completion of assets in line with Scottish Government targets.	First phase of registration completed (in line with available budget and staffing) covering 25% of rural and coastal assets	31/03/19	10		Delays caused by a lack of internal resource (PM, Coastal and GIS) and resource constraints at Land Registers	SW

8	Raise awareness about the business to increase transparency through a dedicated campaign including developing wider range of bespoke, targeted communications in response to tenant and stakeholder research.	Website users up 10% (on 2017-18 figures) Twitter followers up 40% E-newsletter subscribers up 25% Tenant and stakeholder research shows minimum 80% awareness of Crown Estate Scotland's role / remit.	01/04/18	20			EB
9	Further development of public portal (online asset map) plus additional published data providing access to spatial and other data relating to asset agreements.	Scoping completed and delivery plan agreed covering: <ul style="list-style-type: none"> • key asset data • data standards • options for efficient analysis & delivery • capitalise IXP functionality • resource requirements for future budgets and operational plans consideration Additional downloadable data e.g. aquaculture published	01/06/18	15		Discussions have taken place on Esri Metadata, Scottish Government SSDI data standards, Ordnance Survey 'Presumption to publish' and Open Government Licencing (OGL)	HK
10	Creation of Open Data Publications plan	Scoping complete to inform subsequent delivery plan / implementation covering <ul style="list-style-type: none"> • data inventory • data management • data quality • data standards 	31/03/19	5		Open Data Workshop on 9 August 2018 (by Urban Tide)	HK (GIS) HH (CES)

		<ul style="list-style-type: none"> GDPR (General Data Protection Regulation) compliance Open Government Licence publication of information access to information 					
11	Strengthen our culture and engage with employees to deliver our vision, goals and strategic objectives, and ensure our values underpin all that we do and how we do it.	<p>Programme of activity delivered resulting in 70% good-strong levels of employee engagement including awareness of their role in delivering our strategic objectives and corporate plan (as shown in staff survey)</p> <p>80% aware of key proposals in the Crown Estate Bill</p> <p>Max 10% unplanned turnover</p>	31/03/19	5			SH/EB/ FH
12	Enhance staff expertise to meet evolving business needs, including development and roll-out of staff code & handbook of policies.	<p>People Strategy in place</p> <p>CPD (continuing professional development) plans completed for all staff</p> <p>Staff code & handbook of policies in place and staff survey shows 80% good-strong level of understanding</p>	31/03/19	10		Planning underway	FH
13	Compliance with new General Data Protection Regulations.	<p>Policy and procedures in place</p> <p>Staff training delivered</p> <p>Staff survey shows majority of relevant staff have good-strong level of understanding</p>	31/03/19	20		Training to follow. Project Plan for full compliance will be developed and training needs for all staff assessed.	HH

14	Support 2018 Year of the Young Person.	Forestry training scheme/s delivered; volunteering opportunities for young people at Glenlivet Estate; opportunities for staff volunteering with young people and children	31/03/19	30		Internship in place Ongoing ranger volunteering	AW/EB
----	--	--	----------	----	--	--	-------

Marine (Energy & Infrastructure; Aquaculture)

Energy & Infrastructure

No	Action	Measure	Start Date	% Complete	Status (Dark green- complete; light green- on track; amber- at risk/delayed; red- target will not be reached)	Comment (if applicable)	Owner
15	Investigate potential for leasing seabed for local energy systems project covering energy generation, storage and consumption (working with Scottish Enterprise, HIE (Highlands & Islands Enterprise) etc).	Clear, transparent and robust leasing process in place to ensure access to seabed.	31/03/19	20			SW
16	Support CCS ambitions in Scotland, in line with Scottish Government's Energy Strategy's 2050 Vision, by investigating potential value and / or benefits that the sector may deliver.	At least one study completed and launched.	31/03/19	80			TM

17	<p>Support floating offshore wind through</p> <ul style="list-style-type: none"> Study to evidence potential macro-economic benefits for UK; sharing of findings through workshops <p>Co-ordinating a UK-wide Floating Wind Steering Group (Crown Estate Scotland, The Crown Estate, RenewableUK, Scottish Renewables) to build industry-wide approach</p>	Floating Offshore Wind Energy Route Map developed setting out clear vision and helping to identify development opportunities and large-scale deployment New leasing (see no 19 below) New / emerging UK government policy takes account of floating wind opportunity in Scotland	31/03/19	30			SW
18	<p>Investigate the opportunity for further offshore wind leasing to enable new projects operating from mid-2020s, with associated job creation and carbon reductions.</p> <p>Work with Scottish Government as well as wider stakeholders including UK Government to ensure clarity and certainty on a UK-wide basis for overseas investors.</p>	<p>Leasing process launched, evidencing stakeholder input and support, with the process clearly aligned with Marine Scotland / Scottish Government planning and policy to help de-risk development and attract developer interest</p> <p>Developer applications submitted (or in advanced stage of preparation, depending on final leasing round timescales)</p>	31/03/19	25		<p>Discussion Document published 21 May 2018</p> <p>Deadline for responding to Discussion Document August 31 2018</p> <p>Final lease offering to be completed by December 2018</p>	JR
19	Manage our £10m investment in MeyGen	Contractual obligations delivered, project becomes fully operational, and capital return started.	31/03/19	30		Construction stage complete; operations commencing	SW

20	Refine approach to awarding rights for offshore energy and infrastructure projects to optimise benefits for stakeholders & communities.	<p>Implement measures identified during 2017-18 joint review with Offshore Renewables Programme Board. These are likely to include</p> <ul style="list-style-type: none"> • providing documentation and materials that help suppliers, developers and enterprise agencies to stay up-to-date with developments in supply chain • providing certainty and clarity regarding pipeline of projects • structuring agreements to allow time for supply chain development 	31/03/19	30		<p>Incorporated in leasing Discussion Document to test stakeholder views of the approach</p> <p>Will be completed in line with finalisation of leasing offer</p>	JR
21	Identify and scope at least one opportunity for collaborative cables feasibility study / project designed to unlock value from Crown Estate Scotland assets; seek funding	Work up at least one project concept (options include i) Regulatory aspects of telecoms cables cohabiting with regulated electricity cables ii) North	31/03/19	100		As evidenced in Wisdom.	TM

		Sea telecoms development opportunity iii) community-focussed telecoms cables study)					
22	Provide ad-hoc seabed rights to meet offshore CO2 storage, cables and pipelines sector requirements; negotiate and complete licensing / leasing for offshore infrastructure in response to individual project developments and sectoral feedback, drawing on specialist sector-specific external advice as appropriate.	Initiate update of standard terms for pipelines agreements, with stakeholder input, to achieve transparency and provide certainty (update completed 2019/20)	31/03/19	50		Update to standard terms initiated Q1 Project plan to be finalised	TM

Aquaculture

No	Action	Measure	Start Date	% Complete	Status (Dark green- complete; light green- on track; amber- at risk/delayed; red- target will not be reached)	Comment (if applicable)	Owner
23	Follow up seaweed and finfish waste anaerobic digestion biogas trials to inform participation in proposed BlueSeas project.	Confirmation of BlueSeas project with finfish industry partner.	31/03/19	100		BlueSeas bid submitted to BBSRC (in April) and ourselves and Marine Harvest (MH) are confirmed industry	AA

						partners. AD trial underway. Await bid outcomes.	
24	Build on findings of shellfish critical mass investigation to increase active cultivation.	Develop at least one identified loch-based shellfish cultivation business plan.	31/03/19	35		Project plan agreed and ready to be tendered in the next few weeks (tender proposal being drafted)	AA
25	Develop a community information pack for shellfish farming in collaboration with Association of Scottish Shellfish Growers.	Publish and promote information pack.	01/10/18	5		Discussion started with CES media manager and ASSG on this. Look to run alongside above critical mass pilot	AA
26	Pursue further opportunities for aquaculture Special Purpose Vehicles (SPVs), with community bodies as a joint leaseholder with operators.	SPV lease agreements with community signatories in place, giving local interests a direct stake in leases and a degree of control that ensures they cannot be passed to a different operator without their approval. This will signal a positive operator-community relationship.	31/03/19	40		Leasing principles in place. Awaiting finalisation of first agreement – SPV documents with parties' lawyers	AA

Rural

No	Action	Measure	Start Date	% Complete	Status (Dark green- complete; light green- on track; amber- at risk/delayed; red- target will not be reached)	Comment (if applicable)	Owner
27	Manage lease expiries across the rural estate, surrenders and restructures to deliver wider benefits including supporting new entrants into farming, developing business progression for existing tenants and releasing units for potential sale where appropriate.	Complete scheduled re-lettings; complete approx. 30 renewals for river salmon angling; facilitate at least one new entrant through a lease restructuring; facilitate surrenders as opportunities arise to release tenancies for restructuring / sale / tenant business progression.	31/03/19	30		Close to finalising HoT for surrender Upper Dalhousie farm. Dell farm reletting underway.	AW/FS
28	Release capital through targeted sales of different types of rural assets Complete capital investment programme on agricultural & residential units to support business development and diversification.	Release £8.7m in capital (as part of the £9.4m detailed in section 3) Completion of budgeted capital investment of £2.3m	31/03/19	25 10		Farm sale & 1 development sale concluded April. Auchenhallrig Farm launched end of May 2018	AW/FS
29	Facilitate business planning for agricultural tenants.	Programme of events / business planning activities delivered; strategic advice and guidance provided to tenants.	31/03/19	10		Planning phase for this programme is now started	AW
30	Forestry restocking at Glenlivet (Cairn Muldonich) Investigate potential new planting site, including	All works complete by May 2018	01/05/18	100 5		Complete	NP

	preliminary survey work to assess ground and species suitability; develop outline planting proposal	Site identified, site survey complete, planting proposal finalised				Site identification ongoing	
31	Trial Natural Capital Protocol with tenants and partners at Glenlivet and Fochabers estates	Phase 1 of trial reviewed, results shared, Phase 2 under development with partners (SNH & SEPA), with funding secured for further work to address key recommendations from Phase 1.	31/03/19	50		Phase 1 now complete – results published 17 July 2018	AW/CC
32	Implement Biodiversity Action Plans for rural estates working with tenants, wildlife & recreation and community groups/agencies to promote enjoyment of and better understand the natural environment. Manage / monitor network of SSSIs and other designated biodiversity sites	A minimum of five new biodiversity management projects underway including action on invasive species, new woodland establishment and peatland restoration.	31/03/19	100		Nine new projects underway encompassing all planned action areas (invasive species, new woodland establishment and peatland restoration)	AW
33	Implement Tomintoul and Glenlivet Landscape Partnership Project (delivery phase), working with Tomintoul & Glenlivet Development Trust.	Secure majority of £550,000 grant from HLF Invest £50,000 from Crown Estate Scotland Implementation kept on time and on budget Majority of work on Blairfindy Castle Project completed.	31/03/19	50		£480,000 grant agreement signed for the Blairfindy project. £280,000 grant agreement for Scalan Mills is	AW

						expected to be agreed by October 2018	
--	--	--	--	--	--	---------------------------------------	--

Coastal

No	Action	Measure	Start Date	% Complete	Status (Dark green- complete; light green - on track; amber- at risk/delayed; red- target will not be reached)	Comment (if applicable)	Owner
34	Build strategic partnership to deliver improvements to infrastructure at Rhu Marina	Establish funding partnerships with key stakeholders Progress funding applications as appropriate Deliver works as funds and other constraints allow	31/03/19	20			AW/PB
35	Implement any agreed changes to moorings management following 2017-18 fee review and survey of tenants	Plan (reflecting changes agreed in 2017-18 review) in place by June 2018 and implemented by March 2019.	31/03/19	20		Report completed, to be peer reviewed by DV.	AW/PB
36	Active engagement by agents to identify and pursue new initiatives with and for coastal communities.	Agent's engagement plan implemented with aim of maintaining high levels of coastal tenant satisfaction (6.9 on a 10-point scale in 2017-18); success measured in next coastal survey, due 2019-20	31/03/19	80		Continuous and ongoing	AW/PB

		Maintain or increase numbers of moorings associations and individual licensed moorings.					
37	Facilitate at least one asset sale or new lease opportunity to a community group, working with a wide range of organisations with an interest in the marine environment.	Sale / lease completed.	31/03/19	50		Glendale Trust and Tobermory Harbour Association at Stage 2 of Scottish land Fund.	AW/PB

Urban

No	Action	Measure	Start Date	% Complete	Status (Dark green- complete; light green- on track; amber- at risk/delayed; red- target will not be reached)	Comment (if applicable)	Owner
38	Manage lease breaks and expiries at George St to reduce any void periods and maximise rental income.	Secure rental income of at least £300,000 per annum on office space.	31/03/19	15		Short extension of lease term 1 st floor completed. HoT under consideration by prospective new tenant. Instructed	FS/LH

						swift options proposal for bike storage	
39	Identify and complete suitable acquisition to grow urban portfolio, in line with draft investment strategy	Acquisition complete delivering revenue increase	31/03/19	-		Acquisition not proceeding. No plans for substitute at current time.	LH

Board	Eighth Board Meeting	BD(2018)08
Meeting date	22 August 2018	
Paper title	Proposal for Bonus Scheme 2018/19 BD(2018)8.5	
Security classification	Restricted	
This document contains commercially sensitive and confidential information and may relate to the formulation of policy.		
Presented by	Simon Hodge	
Author	Fiona Haywood	
Annexes	Annex A: Alternative bonus eligibility approaches	
Recommendation	The Board is invited to (a) note the context and background information in the paper and (b) agree an approach to Bonus payments in 2018/19.	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

1. Background

This paper outlines our proposed approach for Bonus payments to eligible staff in 2018/19 and provides an update on pay negotiations for 2018/19.

As outlined in paper BD(2018)7.6, presented to Board in May 2018, bonus arrangements have represented a key component of pay policy for staff who transferred from The Crown Estate for many years. Many see it as a core part of their pay and reward structure and it forms an important incentive.

Concerns about CES pay and conditions were expressed in the recent staff survey¹. In addition, 36% indicated that they plan to leave the organisation within two years² (i.e. by March 2020). Our Staff turnover was 13% in 2017/18 which was above our KPI of 10%, in addition we had 3 leavers in Q1 of 2018/19.

¹ I believe that CES has a competitive pay and benefits package- Disagree 28%, Neither Agree nor disagree 11%; Agree 47%, Don't know 14%.

² I plan to still be working at Crown Estate Scotland in 2 years' time – Disagree 36%; Neither Agree nor Disagree 8%; Agree 44%; Don't know 11%

In March 2018, Board approved payment of a bonus for 2017/18 to all eligible staff. Advice from our lawyers was that this bonus should have a similar structure to The Crown Estate's one (albeit revised slightly to ensure consistency across teams) and that bonus payments should be of a similar structure. This was paid to transferring staff and those who had later joined the business in 2017.

Table A below outlines the agreed bonus structure for 2017/18.

Table A: (percentages are of gross salary and up to a maximum)

Bonus Grade	Not Performing	Performing	Good	Strong	Outstanding
Executive Committee	0%	10%	15%	20%	25%
Senior Manager	0%	7%	12%	17%	22%
Manager/Senior Technical	0%	5%	10%	15%	20%
Admin/Technical	0%	3%	6%	9%	12%

We subsequently sought further legal advice on any requirement to pay bonus for 2018/19. The core requirement to operate a bonus scheme remains, as we have been advised that this is an implied contractual requirement which cannot be changed unless agreed through negotiation with the staff side. However, now that we have had a full year of operation, advice is that we can consider adapting our approach to bonuses in relation to the performance and quantum of CES(IM) rather than aligning closely with that of the predecessor body, The Crown Estate.

2. Contractual Position

Staff who joined us after April 1 2017 but before January 2018 have the below clause in their contracts which references a discretionary bonus payment.

"You may also be entitled to participate in CES(IM)'s discretionary bonus scheme that may operate from time to time. CES(IM) reserves the right, in its absolute discretion, to vary the terms of, and/or the level of bonus payable under, any bonus scheme from time to time in force, and/or to terminate the operation of any such scheme without notice."

Since January 2018 this clause has not been included in new starters' contracts. Due to turnover and recruitment, as at end August 2018 we have a total of 9 staff (out of a headcount of 38) who have no reference to a discretionary bonus in their contracts.

This is 23% of our staffing population. This figure is likely to increase with natural turnover and planned recruitment to new roles within the business.

The wording in staff contracts relating to discretionary bonus provides CES (IM) with an expressed term allowing us to vary the bonus payment made to staff. Our legal advice explains that given the passage of time and the different scale and operation of CES(IM) in comparison to The Crown Estate, we are therefore able to vary the structure and scale of bonus payments so that they more appropriately reflect the nature of our organisation.

3. Pay Negotiations for 2018/19

Pay negotiations for 2018/19 are currently underway with PCS. Our business offering is a cost of living increase in line with Scottish Government Pay Policy for 2018/19 and consideration of bonus payments for staff by Board. We have highlighted to PCS that Board will consider our offering to staff in relation to Bonus for 2018/19 in August 2018.

Following this paper to agree our organisational stance on Bonus we will then include this in our pay negotiations with PCS with a view to reaching agreement on Pay for 2018/19.

4. Proposals for a 2018/19 bonus scheme

The below factors may be considered to be core elements of the 2018/19 Bonus Scheme.

1. Should cost no more per eligible member of staff than the 2017/18 scheme. Given reducing number of eligible staff, this will reduce overall cost.
2. Should be demonstrably fair and equitable.
3. As requested by Board, this will only be open to staff who joined the organisation before January 2018 and meet the eligibility requirements of the scheme.
4. Should be compatible with transition to new negotiated T&Cs for CES staff in line with SG Pay Policy.
5. Will be based on achievement of agreed business targets as well as individual performance.

We therefore propose that there is a single bonus structure for staff in 2018/19 across the organisation rather than different tiers for different types of role. The figures below are fixed % based on individual performance ratings at the end of the year and are within the range span of the 2017/18 scheme.

Table B: Proposed Bonus approach for 2018/19; percentages are fixed and refer to gross salary

Not performing	Performing	Good	Strong	Outstanding
0%	3%	6%	11%	16%

Bonus for 'performing' would represent a low-level common bonus (e.g. 3%) to all (except non-performers) for successful delivery of 2018/19 objectives. Enhanced bonus for 'good', 'strong' or 'outstanding' would need to be justified by achievements over and above the basic expectation.

'Strong' or 'outstanding' will need to be strongly evidenced with performance that is clearly and demonstrably above and beyond the norm.

In 2017/18 we had one single financial measure of business performance for the purposes of paying bonus. We propose that in 2018/19 we widen this to include the below measures:

- Financial (net revenue before transfers to capital; and capital receipts)
- Delivery (achievement of >90% of achievable business plan actions)
- Operating (meeting requirements of our Framework Document)
- Reputation (stakeholder/tenant feedback and satisfaction)

6. Eligibility for Bonus

As requested by Board, we have outlined an approach which restricts eligibility for bonus to staff who started in the organisation prior to 1 January 2018 (and therefore had contractual wording in their service agreement which refers to a discretionary bonus scheme). The Risk section of this paper outlines the identifiable risks which are associated with this approach and should be considered by Board.

Further eligibility criteria for bonus would be that staff must be employed directly by Crown Estate Scotland (Interim Management) on the date the bonus is paid, and must also meet the performance criteria outlined in Table B.

7. Risk

A key risk associated with paying bonus to only a proportion of the workforce is the risk of equal pay claims and internal grievances. Although staff appointed post-January 2018 do not have a contractual reference to bonus, they have otherwise been appointed on equitable pay and conditions to staff in similar roles. This approach will therefore result in scenarios where two staff on comparable salaries will carry out the same roles for the full financial year, with one receiving bonus and the other not being eligible.

As we progress through our pay and conditions review, if removal of the organisational bonus scheme is a factor, these may need to be 'bought out' for eligible staff. 'Buying out' bonus for one group of employees and not others could give rise to a risk of equal pay claims and risks a two-tier approach to pay and conditions from 2019 onwards.

Board are therefore advised to consider these risk factors when determining the bonus eligibility criteria for 2018/19. Given these risks, we have proposed a number of alternative high-level approaches relating to eligibility for bonus in Annex A for consideration.

8. Scottish Government HR approach

We have consulted Scottish Government's ER, Reward and Policy Team in order to reflect their views on payment of Bonus and explore the risks highlighted with paying bonus only to staff who joined before January 2018.

They have indicated that they are aware of the ministerial position that we should be minimising our Bonus provisions wherever possible to comply with Scottish Government pay policy. They did, however, state that there are precedents for dispensation to pay bonus in organisations which are in a transition period and they are also mindful of the complexities involved in managing changes to pay and conditions while respecting employment rights. They were also in agreement that the approach outlined i.e. restricting of bonus only to staff who have joined before January 2018 would give a risk of Equal Pay claims and ER issues/ grievances within the business.

9. Financial Considerations

For staff who joined before January 2018 there would be a potential bonus payment to 29 staff with a total payment of approx. £114k³. In 2017/18 we paid approximately £160,000 on bonus payments to staff.

³ Based on individuals performing at the same level in 2017/18 and 2018/19

10. People considerations

Restricting payment of bonus to staff who joined prior to January 2018 sends a clear message to staff outlining our commitment to aligning with Scottish Government Pay and conditions. Careful consideration will need to be given to how this is communicated by the Board and leadership team in order to mitigate the risks outlined in this paper of potential claims, employee relations disputes and staff retention.

Annex A- Possible alternative bonus eligibility approaches

Given the risks outlined in this paper a number of alternative approaches are outlined.

Option 1: Paying bonus to no employees in 2018/19

Pros: This approach represents consistent treatment of staff across the business and would be in line with our proposed future model of pay and conditions.

Cons As outlined in prior Board papers, the risks associated with removing bonus payments without negotiating and obtaining agreement with our Union are high, including risks of employment tribunals and legal challenges arising from the protections around 'no detriment' arising from transfer. This approach may impact morale and retention among staff who have previously been awarded Bonus.

Option 2: Paying bonus to staff who have joined since January 2018

The eligibility criteria for bonus in this scenario would be all staff employed directly by Crown Estate Scotland (Interim Management) who are in employment on the date the bonus is paid. Exceptions are:

- Staff who begin employment in or after Q4 2018/19.
- Staff who do not meet the performance criteria.

Pro-ration would also apply to staff who join Crown Estate Scotland (Interim Management) in 2018 throughout Q1, Q2 or Q3 as shown below:

Table C: Pro-rata eligibility criteria

	Start Month	Pro-ration (bonus/12 x no of months service)
Q1	April	x12
	May	x11
	June	X10
Q2	July	X9
	Aug	X8
	Sept	X7
Q3	Oct	X6
	Nov	X5
	Dec	X4
Q4	Jan	-
	Feb	-
	Mar	-

It is estimated that this approach would cost an additional £37K for 2018/19.

Pros: This approach would be consistent across all staff within the organisation in terms of pay and conditions and would mitigate the risks associated with variance of bonus eligibility across the organisation. It would enable CES(IM) to demonstrate the fairness and consistency principles

associated with the wider pay and conditions review) and help maintain a cohesive 'one team' culture.

Cons: Bonus would be paid to staff who have no reference to bonus in their contracts, potentially setting a precedent for future years. Given that this bonus payment is anticipated to be an interim arrangement in the lead up to implementation of a new pay and conditions framework the associated risks are judged to be low.

Option 3: Paying a reduced bonus to all employees in 2018/19

There are a number of variants of this approach, either with or without links to individual as well as organisational performance.

Pros: This approach would be consistent to all staff and would mitigate the risks associated with variance of bonus eligibility across the organisation. It would allow Board to demonstrate that they are moving towards an alignment with Scottish government pay and conditions, whilst also enabling CES(IM) to demonstrate the fairness and consistency principles associated with the wider pay and conditions review.

Pro rationing would apply to staff who joined part way throughout the year as outlined in Table C above.

Cons: Bonus would be paid to staff who have no reference to bonus in their contracts potentially setting a precedent for future years. Given that this bonus payment is anticipated to be an interim arrangement in the lead up to implementation of a new pay and conditions framework the associated risk are judged to be low.

A reduced level of payment may impact morale and retention among staff who have had previous bonus awards. This approach may also give rise to challenge from staff members with bonus references in their terms of employment on the basis of 'no detriment' on transfer.

Board	Eighth Board Meeting	BD(2018)08
Meeting date	22 August 2018	
Paper title	Data Protection BD(2018)8.6	
Security classification	Unclassified	
Presented by	Helen Howden	
Author	Helen Howden	
Annexes	n/a	
Recommendation	The Board is invited to note the content of this paper.	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

Background

1. The new EU General Data Protection Regulation (GDPR) became effective on 25 May 2018. This is supplemented by a UK Act of Parliament, the Data Protection Act 2018.
2. GDPR enhances the rights of individuals, giving them more control over their personal data. It also places enhanced obligations on organisations who control and/or process data. Some of the key changes introduced by GDPR are:
 - a. the level of fines for breaching the GDPR have been increased;
 - b. the rights of individuals over data have been expanded – these now include the right to quicker access to their data; the right to have inaccurate data corrected; and the right to be forgotten (that is, to have their data deleted);
 - c. public bodies, such as Crown Estate Scotland must appoint a Data Protection Officer;
 - d. organisations are required to be more transparent about the data they hold – informing data subjects of the data held, how long it will be held for, whether it will be shared, what it will be used for; and
 - e. organisations have an accountability duty and must be able to evidence compliance with GDPR.

Data Protection in Crown Estate Scotland

3. In preparation for the new regulation, awareness sessions for colleagues were held by the Business Information Co-ordinator and a working group formed to identify the work required to ensure compliance with GDPR.
4. The Governance Manager was appointed as Data Protection Officer and has attended training, including becoming an EU certified data protection officer.

5. An information asset register has been compiled and continues to be developed to ensure that the organisation understands the type of information held, where it is held, why it is held, how it is used and how long it requires to be held for.
6. The information asset register was used to prepare new privacy notices to tell individuals how we use their data. The privacy notice for employees and Board members was circulated by email and the privacy notices for tenants and website users have been published on the website.
7. Further training requires to be delivered to all staff. To ensure that we can evidence compliance (in line with 2e above) an e-learning course will be procured and it will be compulsory for all staff to complete this. This course will be made available to Board members who are strongly encouraged to undertake it. To supplement the online training, sessions will be delivered by the Governance Manager which are bespoke to the activities undertaken by Crown Estate Scotland and which will allow colleagues to ask questions.
8. A breach incident response plan has been developed and staff notified of this. The training to be delivered by the Governance Manager will specifically include this plan.
9. Further work, including the development of a data risk register, an assurance map and a compliance register, are in progress and will be reported on at future Board meetings.

Board	Eighth Board Meeting	BD(2018)08
Meeting date	22 August 2018	
Paper title	Records Management Plan BD(2018)8.7	
Security classification	Unclassified	
Presented by	Helen Howden	
Author	Helen Howden	
Annexes	n/a	
Recommendation	The Board is invited to note the content of this paper.	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

Background

1. As a public body, Crown Estate Scotland is required, under the Public Records (Scotland) Act 2011, to produce a Records Management Plan ("RMP") setting out the arrangements for the management of our records. Our RMP must be submitted to the Keeper of the Records of Scotland (the "Keeper") for assessment and approval by 29 August 2018.
2. The effective management of records and information is a core element of good governance and assists with meeting the business needs of the organisation, promoting efficiency and supporting accountability.
3. Records management applies to all records, irrespective of how they are created and stored or the type of information they contain. Our records management policy sets out our approach to records management, data protection, freedom of information, business continuity and information security, along with a detailed RMP.

Records Management Plan

4. The Crown Estate Scotland RMP has been developed following the principles set out in the Model RMP published by the Keeper and will be submitted to her with supporting evidence. The Keeper will review the submission and provide an assessment of it. The assessment will allow us to prepare an action plan to allow us to develop and refine our approach to records management throughout the organisation.
5. During the development of the RMP we have engaged with the Keeper on the content and format of our Plan and the evidence which will be submitted in support of it. As a new

organisation there are certain elements of the Plan which require to be worked on further and we anticipate that the Keeper will highlight areas for improvement.

6. The Head of Finance & Commercial has overall responsibility for the management of the records of Crown Estate Scotland and the Business Information Co-ordinator has day-to-day responsibility.
7. An awareness training session for staff will be held and an introduction to the RMP will be included in the induction for new members of staff.
8. Once we have the Keeper's assessment (which will be published on the website of the National Records of Scotland) we will bring a further report to the Board and details of our action plan to address the areas the Keeper highlights.

Board	Eighth Board Meeting	BD(2018)8
Meeting date	22 August 2018	
Paper title	Board Forward Programme BD(2018)8.8	
Security classification	Unclassified	
Presented by	Simon Hodge	
Author	Simon Hodge	
Annexes	Annex A: Forward Programme	
Recommendation	The Board is invited to (a) consider and agree the proposed Board forward programme; (b) provide advice on future meetings between the Board and Cabinet Secretary; and (c) provide advice on location of future meetings and associated activity.	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

Purpose

1. To propose a Board forward programme to end of 2019, linked to the outworking of the Scottish Crown Estate Bill and development of the next corporate plan.

Background

2. Crown Estate Scotland was formed in April 2017. Over the last year the focus has been on an intensive process of organisational formation, alongside maintaining business as usual. With the organisation successfully established, the time is right to form a forward strategic programme for the Board and the organisation. Significantly, the next 18 months will include the passing of the Scottish Crown Estate Act and the preparation of our next three-year corporate plan. The next corporate plan provides the main platform to lay out our vision and commitments for the future.

Forward Programme content

3. The proposed forward programme picks up seven workstreams:
 - Governance
 - Business management
 - Corporate cycle
 - Evidence base
 - Sector strategies and plans

- Managers of the Scottish Crown Estate
- Organisation

We have reflected both the annual and triennial corporate cycles. We have identified a sequence for development of sector strategies that will help us prepare firm foundations for the next corporate plan, as well as give further depth for sector stakeholders. We have built in elements of organisational development. We have reflected time-lines that are set by prior commitments, business imperatives and external factors. We have included opportunities for early Board involvement in shaping strategic priorities.

W3 hope we have reflected aspects previously flagged by the Board for attention. Regarding the review of managing agents, we have proposed broadening the scope of this work and linking with a wider piece on skills and capacity planning (March 2019). This will allow us to review our over-arching approach to in-house activity and outsourcing, based on an analysis of future skills and capacity requirements. We propose that this approach will provide us with a clear and consistent basis for parallel development of in-house capability and our use of external providers both in relation to management of the assets and other business and corporate functions.

This is a very full programme, both for the Board and for the team. Nonetheless, each element is important, and we have excluded operational matters better dealt with by correspondence. We have sought to spread the workload across the programme as evenly as possible. Given the amount of strategic work that is required it has not been possible to separate strategic and business management into separate meetings. We will, however, seek to separate them in each agenda, with an initial session on business management, followed by strategic agenda items.

We look forward to working with the Board on how best to use the limited time available in Board meetings. In particular, we want to provide opportunities for early Board involvement in shaping strategic priorities, but in a way that is focussed and business-like. We have two such sessions planned for the August (rural strategy and public benefit analysis project) from which we can learn.

We intend that this forward programme provide a basis for the team to plan their work programmes, and we will organise our work to the schedule agreed. However, the Board will understand that over the course of the next 18 months adjustments to the forward programme are likely to be needed in response to emerging circumstances and understanding of the work required. We will therefore keep the programme updated in liaison with the Chair.

Meeting with the Cabinet Secretary

4. Our framework document supports the value of an annual meeting between the Board and the Cabinet Secretary for Environment, Climate Change and Land Reform. There may also be merit in combining this with the opportunity for the Cabinet Secretary to meet staff. The November 2018 and September 2019 meetings would offer good opportunities to engage with the Cabinet Secretary, the first to explore Crown Estate Scotland's role post-Bill and the second to share and discuss Crown Estate Scotland's next corporate plan.

Location of meetings and associated activity

5. Over the last year the Board's emphasis has been on locating meetings to allow engagement with rural stakeholders, which has been instrumental in introducing the new organisation and building relationships with stakeholders.

Looking forward the Board will wish to consider a number of factors in determining location of meetings and associated activity including:

- building links with Crown Estate Scotland staff;
- using visits to inform development of sector strategies;
- engaging with prospective local Scottish Crown Estate managers;
- meeting with the Cabinet Secretary, Scottish Government and other key stakeholders; and
- time and cost associated with travel.

We have made tentative suggestions in the light of these considerations.

Recommendation

6. The Board is invited to:
- a) Consider and agree the proposed Board forward programme;
 - b) Provide advice on future meetings between the Board and Cabinet Secretary; and
 - c) Provide advice on location of future meetings and associated activity.

Board Forward Programme 2018 –19

	21/22 August 2018 Wick (+ Beatrice)	2/3 October 2018 Glenlivet (+ tenants)	27 November 2018 Edinburgh (+ staff)	29 January 2019 Edinburgh, VQ (+ SG)	26/27 March 2019 Argyll? (+ aquaculture & coastal)	28/29 May 2019 Fochabers (+ rural strategy)	23/24 July 2019 TBD? (+ urban, V&DL opportunities?)	25/26 September 2019 tbc (+ pilot?)	26 November 2019 Edinburgh
Governance	Data protection			Implications of Scottish Crown Estate Act		Board appraisal and self-assessment Annual Reports – Audit & Risk, FOISA, Complaints			
Business management	Q1 Performance Reporting	Risk	Q2 Performance Reporting	Q3 Performance Reporting CES accom: criteria	Risk	Q4 Performance Reporting	Q1 Performance Reporting CES accom: options	Risk	Q2 Performance Reporting
Corporate cycle	Final annual report and accounts	2019/20 Business Plan and Investment Plan: scoping	2019/20 Business Plan and Investment Plan: draft	Strategic Man Plan, Corporate Plan, Investment Strategy 2020-2023: scoping	2019/20 Business Plan and Investment Plan: final	Strategic Man Plan, Corporate Plan, Investment Strategy 2020-2023: consultation draft	Annual report and accounts	Strategic Man Plan, Corporate Plan, Investment Strategy 2020-2023: consultation response	Strategic Man Plan, Corporate Plan, Investment Strategy 2020-2023: final 20/21 Bus Plan and Invest Plan: scoping
Evidence base	Public Benefits analysis: scoping		Public Benefits analysis: current evidence base and asset prospectus		Public Benefits analysis: commissioned research		Public Benefits analysis: supporting the Corporate Plan 2020-2023	Public Benefits analysis: publication of evidence base	↑
Sector strategies and plans	Rural strategy: issues	Marine E&I plan: issues	Rural strategy: consultation draft Offshore Wind Leasing: final	Built devpt: scoping Aquaculture plan: issues Coastal plan: issues	Rural strategy: final	↑ Marine E&I plan: draft	Built devpt: draft Aquaculture plan: draft Coastal plan: draft	↑ Marine E&I plan: final ↑ ↑	↑
Managers of the Scottish Crown Estate		Future role of Crown Estate Scotland: discussion Pilots stage 1		Delegation and transfer provisions: discussion with SG	Pilots stage 2	Scottish Crown Estate Act delegation and transfer provisions: preparing for CES role		Pilots progress report	↑
Organisation	2018/19 settlement	Pay & conditions: update	People Strategy	Pay & conditions: recommendations	Skills & capacity planning (in-house/ outsource, org structure, workforce plan): scoping	2019/20 settlement	Pay & conditions: post implementation review	Skills & capacity planning: recommendations	↑

Board	Eighth Board Meeting	BD(2018)8
Meeting date	22 August 2018	
Paper title	Public Benefits Analysis Project Scoping BD(2018)8.9	
Security classification	Unclassified	
Presented by	Simon Hodge	
Author	Simon Hodge	
Annexes	Annex A: Draft Project Initiation Document Annex B: Links to the National Performance Framework Annex C: Links to 2018 Programme for Government Annex D: Links to Scottish Government infrastructure delivery Annex E: Indicative current contribution of each asset type Annex F: Indicative potential contribution of each asset type Annex G: Strength of national evidence-base for each asset type	
Recommendation	The Board is invited to (a) comment on and agree the Project Initiation Document (Annex A); (b) provide input to project scoping; (c) provide advice on Board member involvement with this project	
The board secretary or Chair should be advised if the contents of this paper give rise to any conflict of interest		

Purpose

1. This paper introduces an agenda item at which we will seek Board input into the scoping of the Public Benefits Analysis Project, and Board approval to proceed with the project.

Background

2. The Crown Estate Scotland Corporate Plan identifies our aim to contribute to the Scottish Government's purpose of '*creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth*'. Key to our success is understanding how the Scottish Crown Estate can contribute to this purpose. Crown Estate Scotland works to deliver public benefits. These can be characterised as:

- contribution to Scotland's economy;
- delivery of social benefits;
- environmental contribution; and
- contribution to public finances.

3. Work has already been done to start building our engagement and understanding around public benefits. Crown Estate Scotland is closely involved with the development of Natural Capital thinking in Scotland. We recently published Natural Capital assessments of individual farms and one of the Estates¹ and we are widely respected as a partner in the Natural Capital Coalition.

Preparatory work to look at wider public benefit evaluation has begun under the 'Our Contribution' banner, picking up on the Total Contribution work by The Crown Estate. In addition, the organisation already operates around a definition of asset classes, has a draft investment strategy, and will undertake evaluation work for the Asset Management Pilot Scheme.

We recognise that there is significant work to be done to build and utilise an evidence-base for public benefit delivery from the Scottish Crown Estate. We therefore propose to initiate a Public Benefits Analysis project, which will become the focal point for this work, providing a consistent and holistic basis to aid government and Crown Estate Scotland decision making in relation to the Scottish Crown Estate.

We also believe this approach can provide a model for public benefit evaluation for asset management in Scotland and beyond and demonstrate Crown Estate Scotland's commitment to evidence-based public benefit delivery.

We are now at the stage of mobilising this project. Initial soundings with the Cabinet Secretary and Scottish Government have been positive. Meetings have been held with the Head of Marine Scotland's Marine Analytical Unit, who has agreed to provide technical oversight of the project. Recruitment of a project manager is underway.

The draft Project Initiation Document at Annex A provides more details of the proposed approach.

This project is not an academic exercise. It needs to produce practical information and techniques to bring public benefit delivery into our decision making. This is a key feature that gives this project the potential to be highly influential, but also sets a very practical challenge – how to secure a range of evidence on public benefit delivery that is relevant to the specific situation but, in aggregate, also capable of guiding strategic decision making.

Scoping session with the Board

4. Objectives for the session are to:
 - a. Secure feedback on the draft Project Initiation Document (Annex A).
 - b. Identify opportunities for Board member involvement in building the current evidence-base and review of methodologies.
 - c. Seek board views on ways to prioritise and focus in this project.

This session will also provide preliminary thinking on Crown Estate Scotland's priorities and focus that will help to frame a subsequent scoping session for the next corporate plan.

¹ <https://naturalcapitalcoalition.org/tag/crown-estate-scotland/>

To support the session, we will provide information posters showing:

- Links to the National Performance Framework (Annex B).
- Links to the 2018 Programme for Government (Annex C).
- Links to Scottish Government infrastructure delivery (Annex D).
- Indicative current contribution of each asset type (Annex E).
- Indicative potential contribution of each asset type (Annex F).
- Strength of national evidence-base for each asset type (Annex G).

These are provided in Annexes B to G to this paper but will be on view at a larger scale at the meeting.

Subsequent steps

5. Key milestones following the Board meeting will be the appointment of the Project Manager and convening of the Project Board. Project Board advice will be sought on the best time to initiate the proposed Reference Group.

It is currently intended to come back to the Board in November with an analysis of the current evidence-base. We will also draft a set of interim asset prospectuses offering an initial presentation of the public benefit contribution of each asset class based on current knowledge. This will also allow us to trial ways of presenting information for decision making and for stakeholder engagement. The Board Forward Programme provides further information on subsequent proposals for Board involvement with this project.

Recommendation

The Board is invited to:

- Comment on and agree the Project Initiation Document.
- Provide input to project scoping via the Board session.
- Provide advice on Board member involvement with this project.

Board paper

Annex A

DRAFT PROJECT INITIATION DOCUMENT

Background

The Scottish Crown Estate has recently been devolved. Crown Estate Scotland (Interim Management) (Crown Estate Scotland) has been established to manage the assets. The Crown Estate Scotland corporate plan sets out how we will contribute to the Scottish Government's purpose of 'creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth' during the period 2017- 2020. This will be done by managing land and property in an innovative way to create prosperity for communities and for Scotland, providing opportunities for new and existing business to thrive and ensuring excellent service for our tenants.

There is a need to better understand the portfolio of assets in terms of public benefit delivery as a basis for determining how their value to Scotland can be increased and realised. These public benefits can be characterised as:

- contribution to Scotland's economy;
- delivery of social benefits;
- environmental contribution; and
- contribution to public finances.

Aspects of associated and contributory work are already underway. Most directly, work has begun to define 'Our Contribution', picking up on the Total Contribution work by the Crown Estate. In addition, the organisation already operates around a definition of asset classes, has a draft investment strategy, and is to undertake evaluation work for an Asset Management Pilot Scheme. It is envisaged that this Public Benefits Analysis project becomes the focal point for this work to provide a consistent and holistic basis for government and Crown Estate Scotland decision making.

The Scottish Crown Estate Bill has been laid before Parliament to broaden the ways in which these assets might be managed in the future. Therefore, as far as possible the work will seek to distinguish the benefits delivered by the Scottish Crown Estate assets and the value added by Crown Estate Scotland involvement.

Project Definition

Objectives

- To develop an agreed methodology for evaluating, reporting and presenting the public benefit values of the Scottish Crown Estate and the contribution of Crown Estate Scotland.
- To quantify public benefits in a way comparable with approaches taken by Scottish Government and other relevant public bodies.
- To use public benefit evaluation to inform decisions on future strategy, and to explicitly build this into Crown Estate Scotland business planning and investment strategy.
- To enable informed engagement with stakeholders and clear presentation of how both the Scottish Crown Estate and Crown Estate Scotland contribute to a successful Scotland.

Board paper

- To provide a transparent and strategic basis for evaluating organizational performance based on Best Value principles.
- To provide a model for public benefit evaluation for asset management pilot projects and for other asset managers.

Deliverables

- A consistent, valid and meaningful set of methodologies for collecting data on the public benefit value of the Scottish Crown Estate comparable with approaches taken by Scottish Government and relevant public bodies.
- A programme of baseline data collection using these methodologies, and a schedule for forward monitoring.
- A scheme for comparing and ranking different benefit types to allow comparison of asset classes, determination of equivalence between benefit types and analysis of trade-offs.
- A format of presentation that effectively communicates public benefits delivery from the Scottish Crown Estate and Crown Estate Scotland, and facilitates stakeholder engagement.
- Standard operating procedures for use of portfolio analysis outputs within business and decision processes such as business planning, management pilots and investment appraisal and strategy.

Scope

Portfolio analysis of Scottish Crown Estate assets and, as far as possible, the value-added contribution of Crown Estate Scotland.

Assumptions, Constraints & Dependencies

Assumptions:

- As far as possible, measures of public benefit will be consistent with those already used in the Scottish public realm and link with the SG National Performance Framework and the UN Sustainable Development Goals.
- We will engage with other key public-sector bodies and work-streams during the project to determine good practice and achieve maximum alignment.
- We will involve SG analysts as advisors for the project.
- We will, as far as possible, use current frameworks accessible to Crown Estate Scotland to procure expertise.

Constraints:

- Currently no dedicated resource, capacity or expertise to undertake the project. Dedicated project manager capacity will be required.

Dependencies:

- Availability of Crown Estate Scotland resources and project management capacity.
- Availability of external expertise for evaluation activity.
- Cooperation of tenants, stakeholders and other parties in providing data for the evaluations.

Board paper

Interfaces

Interfaces should be formed with:

- SG/Marine Scotland.
- HIE on socio-economic measures.
- The Natural Capital Working Group.

There will be value to links with the Crown Estate Total Contribution project.

Key Stakeholders

Key stakeholders are:

- The Crown Estate Scotland Board.
- The Senior Responsible Owner (SRO).
- Business areas leads.
- Tenants.
- SG/Marine Scotland/Cabinet Secretary.
- Allied public bodies like HIE, SEPA, SNH.
- Local Authorities.
- Allied NGOs and representative bodies such as DTAS, NFUS, Scottish Renewables, SWT.
- Consultants involved with evidence gathering and analysis.

Outline / Business Case

The Scottish Crown Estate is relatively newly devolved. The public benefit contribution of the assets is not well understood and a solid evidence-base is required to understand their contribution and to make effective decisions about future investment and delivery of Best Value.

This work is likely to run over two years and require a resource input of approximately £200K. This will be a revenue cost.

Option analysis

Options for securing the capacity to undertake the project are:

- Use existing capacity. Current capacity is fully deployed and is not considered to have the necessary skills mix.
- Fully contracted in. This approach will not enable the project to be fully integrated into the organisation and the project manager would likely be classified as de-facto employed by HMRC.
- Fully in-house. This project requires a range of skills and disciplines that cannot be readily of efficiently secured in-house at a reasonable cost.
- In house project management with contracted in specialists. This option provides the most effective solution to project delivery. It integrates the project closely with business as usual and maximises the absorption of learning, whilst utilising external expertise to undertake specialist aspects of the work.

Initial scoping work will be required to review options for evaluating economic, social and environmental benefits, as well as options for analysis, assimilation and presentation.

Board paper

Project Approach

- a) Determine the conceptual approach to public benefit analysis for resource management and investment decision making, ensuring consistency where appropriate with Scotland's National Performance Framework, the Treasury Green Book and current good practice.
- b) Undertake a scoping piece to review data sources and propose a methodology for evaluating public benefit values of the Scottish Crown Estate and the contribution of Crown Estate Scotland. Conduct evidence gathering workshops with sectoral groups.
- c) Identify asset classes within the Scottish Crown Estate and characterize the types of public benefit delivery from each as a focus for evaluation.
- d) Commission specific evaluation studies to determine economic contribution, social contribution and environmental contribution of the Scottish Crown Estate, of the specific asset classes and of certain significant locations or projects.
- e) Develop an approach to presenting the evidence base and using it to support engagement and decision making.
- f) Determine an ongoing monitoring and reporting protocol and schedule.
- g) Build Crown Estate Scotland positioning as a leader in natural capital and public benefit evaluation and management, and promote our approach as best practice.

Milestones

- Initiate evaluation of current evidence: June 2018.
- Establish project board: July 2018.
- Agree PID with the Crown Estate Scotland Board: August 2018.
- Establish project management capacity: September 2018.
- Complete scoping study: November 2018.
- Commission suite of evaluation studies: January 2019.
- Present portfolio analysis results: May 2019.
- Incorporate into corporate strategies, programmes and approaches: July 2019.
- Publish and present portfolio analysis: September 2019.
- Initiate ongoing monitoring programme: November 2019.

Assessment of Benefit

The benefits that the project intends to achieve are:

- Increased value delivery from Scottish Crown Estate assets through evidence-based investment, divestment, development and management strategies.
- Evidence-based policy making on the future role of the Scottish Crown Estate and Crown Estate Scotland, and the contribution of other managers of the Estate.
- Effective management of Scottish Crown Estate assets focusing on activity that will yield the greatest contribution to public benefits.

Board paper

- Informed stakeholder engagement and understanding on the Scottish Crown Estate and Crown Estate Scotland.
- A model for public benefit evaluation for other asset management bodies.

Customer's Quality Expectations

Central to this programme will be to gather evidence to understand the public benefit contribution of the Scottish Crown Estate and Crown Estate Scotland, as a basis for sound decision making and stakeholder engagement. Contribution evidence must be reliable and sufficiently robust for use by the organisation, Scottish Government and Ministers.

Acceptance Criteria

Scottish Government QA will be invited throughout the project.

Communication Strategy

Communication will be maintained with the main stakeholders identified in sections 2.5 and 2.6. This will be captured in a communication plan and, if appropriate, formalised into a stakeholder reference group. A communications tracker will be reviewed as necessary throughout the lifetime of the Project to ensure that it continues to meet the stated aims and objectives.

We will work closely with emerging pilot projects to use the evaluation protocols developed through the project in evaluating the pilots. Likewise, we will work with the Investment Committee to use project findings to inform the next revision of the investment strategy. Close engagement with Scottish Government will provide a basis to mainstream both the understanding of the contribution of the Scottish Crown Estate and wider use of the evaluation protocols across public bodies.

We will undertake broader outreach and awareness-raising once the methodology is in place will focus on sharing the model with other bodies, positioning Crown Estate Scotland as a leader in public benefit evaluation.

Quality Management Plan

The key criteria for judging the success of the Project are:

- Delivery of all products to agreed quality and time;
- Products are fit for purpose.
- Stakeholder feedback is positive.
- The analysis is an effective tool for decision making and policy development.

Project Organisation Structure

A project Board will be formed to manage the project. Workstream leaders will be identified for each project workstream. Some of these will be external providers. The Project Manager will be contract manager for externally commissioned work.

A reference group may be convened to provide wider advice on the project. Membership is to be determined, but may include:

- Crown Estate Scotland Chair
- Crown Estate Scotland Executive Committee
- Pilots Manager
- Scottish Government Sponsor
- HIE

Board paper

- SEPA/SNH
- Evaluation expertise

Senior Responsible Owner

The Project's SRO will be the CEO and will represent the Project interests at Executive Committee and Board.

Project Board

A project Board will be formed to manage the project:

- Crown Estate Scotland CEO (SRO and Chair)
- Project Manager
- Crown Estate Scotland Head of Property
- SG Marine Scotland Principal Analyst (technical QA)

Project Manager

TBC

Project Team

The Project Manager will form a project coordination network from the lead internal and external workstream leaders.

Risks

- Lack of capacity and management focus delays project initiation and scoping. Mitigated by identifying dedicated project management capacity and SRO early input.
- Resolving the more difficult-to-measure elements delays whole project. Mitigated by separate but aligned work on economic, social and environmental aspects.
- Congested diaries compromise operation of the project board. Mitigated by project board members making a specific allocation and prioritisation of the work in their annual objectives.

Project Controls

Project control will be exercised within the project through use of formal project management protocols and supported by standard reporting and monitoring mechanisms.

Quality Control

The Project will put in place quality assurance procedures for all products. These procedures will aim to ensure that a product is complete and fit for purpose.

Risk Management

A project risk register will be used to record risks to the project along with their likelihood of occurring, the effect of their occurrence and how each will be managed.

The Risk Register is owned by the SRO/Project Board and managed by the Project Manager, responsibility for ensuring that the risk management strategy is applied effectively lies with the SRO.

Board paper

The Project Manager will review the Risk Register at each Project Board. Workstream Leaders, with the approval of the Project Manager, will escalate risks for inclusion on the Project Risk Register. Acceptance will be by the Project Board.

Issues Management

The Project Manager's monthly Highlight Report to the SRO/Project Board will identify progress and any areas for concern. If deviation outside agreed tolerances is anticipated the Project Manager will provide the SRO/Project Board with exception reports/plans (through the monthly Highlight Report) containing the following information:

- A description of the problem;
- An analysis of the impact;
- Identified options available to resolve the problem;
- Details of the recommended option.

Project Plan

Within the Project there will be two levels of planning:

- Overall Project Critical Network / Milestone Plan

This plan provides a high level summary of the critical milestones to enable progress to be monitored by the SRO/Project Board. Any changes to critical milestones must be brought to the attention of the Board.

- Stage Plan

This plan provides the detail of the major activities and products that must be achieved in order to successfully complete a stage of work. The Stage Plan is updated on a monthly basis following receipt of any updates from workstream leaders. Any Requests for Change are impacted throughout the Project and summarised for the Project Manager to approve. Following approval by the Project Manager, new plans are issued and the reporting cycle recommences. All Project plans will be completed using the PPM-CoE Project Plan Template.

Plan Tolerances

The Project Plan will show the Project milestones. Tolerances that would trigger exception reports at project and stage level have been established as +/- 10% for costs. Tolerance of +/- 2 weeks is set for each milestone unless otherwise stated and although individual tasks can slip this must not affect the overall delivery timetable and any slippage relating to critical path activities, either potential or actual, will trigger exception reporting. Forecasted exceptions to the project plan will be reported to the SRO/Project Board; otherwise, the updated Milestone Plan will be provided for Project Board meetings.

Reporting framework

The Project will ensure that plans build in the appropriate reporting and monitoring mechanisms these include:

- Monthly Highlight Reports;
- Project Board Meetings;
- Weekly Progress update meetings/reports;

Board paper

- Regular Checkpoint meetings;
- End of Stage Reports;
- Lessons learned.

Project Filing Structure

Project documents will be maintained in Wisdom. Documents will be baselined and subsequent revisions and changes identified using versioning control, responsibility for which will lie with the Project Manager.

Lessons Learned

Periodically, the Project will conduct reviews with those involved with the project to look back on progress and work practices to explore effective ways of working for future best practice.

Annex 1

Senior Responsible Owner (SRO) is responsible for:

- The success of the project;
- Being sure there is a valid business case at the start and as the project progresses;
- The direction and progress of the project;
- Supporting the Project Manager and finding the resources needed;
- Chairing Project Board meetings;
- Signing off project documents and making sure that the work of the project is fit for purpose.

Project Board:

- Agrees the project can start by approving the Project Initiation Document (PID);
- Meets at the end of each stage to review progress and approve the next stage of work;
- Halts the project if necessary;
- Agrees the resources required by the next Stage Plan;
- Sets the overall strategy and looks at how the project links in with other initiative.

Project Board: Senior Supplier

- Owns the project from a supplier point of view;
- Advises on the approach to designing and developing the products of the project;
- Monitors change from a supplier point of view;

Board paper

- Monitors risks from the production perspective;
- Ensures quality control procedures are used correctly;
- Attends Project Board meetings and reviews.

Project Board: Senior Users

- Owns the project from a user viewpoint;
- Checks the project will meet the user's needs;
- Checks the quality of anything produced by the project
- Monitors risks to the users;
- Monitors the impact of changes from a users' point of view;
- Attends Project Board meetings and reviews.

Project Manager:

- Manages the project day-to-day;
- Plans, monitors and controls the work;
- Reports progress through Highlight Reports;
- Makes sure the project's products are delivered.

Project Team – workstream managers

- Carries out the work required to deliver the products of the project.



p.108

THE WARM HOMES BILL WILL SET A NEW STATUTORY FUEL POVERTY TARGET

p.53



EUROPEAN STRUCTURAL FUNDS WILL FOCUS ON POST-INDUSTRIAL AREAS OF SCOTLAND TO HELP TACKLE REGIONAL INEQUALITY

p.46



TO SUPPORT DECOMMISSIONING WE WILL INVEST IN AN ULTRA-DEEP WATER PORT IN SCOTLAND

p.57



WE WILL DOUBLE OUR ANNUAL INVESTMENT IN WALKING AND CYCLING TO £80 MILLION FROM 2018-19

p.39

THE CLIMATE CHANGE BILL WILL SEND A CLEAR, LONG-TERM SIGNAL THAT THIS IS THE BEST PLACE IN THE WORLD TO INVEST IN LOW CARBON BUSINESS

p.41



WE WILL DEVELOP A DEPOSIT RETURN SCHEME TO INCREASE RECYCLING RATES AND REDUCE LITTERING

p.69

THE CROWN ESTATE BILL WILL ESTABLISH A LONG-TERM FRAMEWORK FOR THE MANAGEMENT OF CROWN ESTATE ASSETS IN SCOTLAND, PROVIDING OPPORTUNITIES TO BENEFIT COMMUNITIES AND THE ECONOMY

p.106

THE PLANNING BILL WILL IMPROVE THE SYSTEM OF DEVELOPMENT PLANNING, GIVE PEOPLE A GREATER SAY IN THE FUTURE OF THEIR PLACES AND DELIVER PLANNED DEVELOPMENT

p.38



WE WILL INCREASE SPENDING ON BUSINESS RESEARCH AND DEVELOPMENT

p.115

WE ARE ACTIVELY SEEKING TO INCREASE THE AMOUNT OF INFORMATION THAT WE PROACTIVELY PUBLISH & WE ARE REVIEWING OUR APPROACH TO ACCESSING INFORMATION TO SECURE INCREASED OPENNESS AND TRANSPARENCY IN LINE WITH INTERNATIONAL BEST PRACTICE

p.68



WE WILL CONSULT ON PERMITTING THE CONVERSION OF FARM BUILDINGS TO FORM NEW HOMES TO INCREASE RURAL HOUSING STOCK

p.64



OUR FOOD AND DRINK SECTOR IS A MAJOR CONTRIBUTOR TO SCOTLAND'S ECONOMY

p.46

WE ARE COMMITTED TO SECURING FUTURE INVESTMENT IN CARBON CAPTURE STORAGE IN SCOTLAND

A FUTURE OF OPPORTUNITY

BUILDING A FAIRER SCOTLAND

SERVICES FIT FOR THE FUTURE

A CONFIDENT, OUTWARD LOOKING NATION

KEY SCOTTISH GOVERNMENT
SUPPORTED PROJECTS SINCE 2007

South Yell – Mid Yell Water Treatment Works Upgrade

Lerwick Harbour Quayside Upgrades

Shapinsay Water Treatment Works Upgrade

European Marine Energy Centre

Subsea fibre optic network

Scrabster Harbour

Wick High School – one of 651 school building projects completed

Stornoway Harbour

Ullapool Harbour

Subsea fibre optic network

Tain Health Centre

New ferry points for Raasay, Armadale, Mallaig & Uig

UHI Campus

Great Glen Cycle Way

Sabhal Mòr Ostaig

Lochaber Smelter

A9 – 90 miles of carriageway with cycle lanes

Mull & Iona Progressive Care Centre

Stirling Care Village

Bathgate to Airdrie Railway

Greenock Sports Centre

Queen Elizabeth University Hospital Campus

Kilmarnock Campus

M74, M73 & M8 Improvements

Dumfries & Galloway Primary Care

Stranraer and Cairnryan Strategic Ports

A96 Carriageway Dualling

Forres Hospital

Peterhead HMP Grampian

Elgin Flood Protection

Aberdeen Western Peripheral Route

Key Worker Accommodation

Brechin Flood Protection

V&A Museum of Design Dundee

68,000 new affordable homes across Scotland

Queensferry Crossing

Borders Railway

Selkirk Flood Protection

Glencorse Water Treatment Works

Indicative CURRENT contribution of each asset type

Asset	Economic	Social	Environmental	Financial return	Scottish Crown Estate contribution
Arable Farms	<ul style="list-style-type: none">• Rural jobs & supply chain• Food production	<ul style="list-style-type: none">• Significant public landlord• Support rural communities• Local landscape and sense of place	<ul style="list-style-type: none">• Habitat features• Agri-environment activity (discretion of tenant)• Ag practices may reduce env quality		High
Livestock Farms	<ul style="list-style-type: none">• Rural jobs & supply chain• Food production	<ul style="list-style-type: none">• Significant public landlord• Support rural communities• Local landscape and sense of place	<ul style="list-style-type: none">• Habitat features• Agri-environment activity (discretion of tenant)• Ag practices may reduce env quality		Moderate
Forestry	<ul style="list-style-type: none">• Rural jobs & supply chain• Fibre production	<ul style="list-style-type: none">• Support rural communities• Local landscape and sense of place	<ul style="list-style-type: none">• Habitat features	<ul style="list-style-type: none">• Timber sales gives rise to restocking requirement• Fast appreciating asset class	Minor
Rural Houses			<ul style="list-style-type: none">• Some properties with poor energy efficiency		Minimal / negative
Rural Business	<ul style="list-style-type: none">• Non-farming business premises	<ul style="list-style-type: none">• Supports jobs in rural communities			
River Fishing	<ul style="list-style-type: none">• Locally important but declining	<ul style="list-style-type: none">• Countryside access opportunities through angling associations	<ul style="list-style-type: none">• Promotes environmental management of riparian habitats	<ul style="list-style-type: none">• Minimal investment required• Likely a depreciating asset	
Minerals	<ul style="list-style-type: none">• Rural jobs & supply chain• Raw material production	<ul style="list-style-type: none">• Supports jobs in rural communities		<ul style="list-style-type: none">• Minimal investment required• Opportunistic income	
Development Land	<ul style="list-style-type: none">• Land for built development	<ul style="list-style-type: none">• Contribution to housing stocks		<ul style="list-style-type: none">• Low revenue income as current model based on sale• Generates capital for reinvestment	
Urban				<ul style="list-style-type: none">• High yielding and significant sums generated	
Harbours	<ul style="list-style-type: none">• National infrastructure• Under-invested• Enabling growth in economy and jobs• Underpins tourism economy	<ul style="list-style-type: none">• Sustaining coastal communities• Lifeline ferry services• Local culture and sense of place	<ul style="list-style-type: none">• Enabling mainland sea transport can reduce emissions		
Coastal	<ul style="list-style-type: none">• Coasts part of Scotland's tourism USP• Coastal facilities important to tourism	<ul style="list-style-type: none">• Local culture and sense of place• 2300 agreements, mainly moorings and outfalls• Coastal liabilities	<ul style="list-style-type: none">• Important inter-tidal habitats• Coastal pollution and plastics• Sustainable use of inter-tidal seaweed	<ul style="list-style-type: none">• Can be attractive returns where economies of scale can be exploited	
Aquaculture	<ul style="list-style-type: none">• UKs highest value food sector• Rural jobs and supply chain• Growing seaweed sector	<ul style="list-style-type: none">• Supports jobs in rural communities• Challenges over community interactions and other marine users	<ul style="list-style-type: none">• Concerns over sustainability• Shellfish make a positive contribution• Need protocols for large-scale seaweed harvesting	<ul style="list-style-type: none">• Production-based income stream; can be volatile• Minimal investment required	
Offshore Wind	<ul style="list-style-type: none">• Important contributor to green economy• Jobs in shore-base coastal communities• Need to strengthen supply-chain	<ul style="list-style-type: none">• Jobs in coastal and manufacturing communities• Community benefits fund with some schemes	<ul style="list-style-type: none">• Important contribution to SG climate change and energy targets• Impacts on seabirds and fisheries• Visual aspects	<ul style="list-style-type: none">• Long lead time• Consented schemes give major capital uplift and strong revenue streams	
Wave and Tidal	<ul style="list-style-type: none">• Development phase• Local economic benefits e.g. in Northern Isles	<ul style="list-style-type: none">• Jobs in coastal and manufacturing communities• Potential contribution to local energy systems	<ul style="list-style-type: none">• World leader' flagship for Scotland's green credentials.	<ul style="list-style-type: none">• No medium-term prospect of strong revenue growth	
Marine Infrastructure	<ul style="list-style-type: none">• National infrastructure• Enabler for economy and jobs• Potential international USP	<ul style="list-style-type: none">• Underpinning connectivity infrastructure		<ul style="list-style-type: none">• Demand driven• Minimal investment required	
Carbon Capture and Storage	<ul style="list-style-type: none">• Development phase		<ul style="list-style-type: none">• Role in decarbonisation currently limited but remains policy intention	<ul style="list-style-type: none">• Embryonic sector; no income	

Indicative POTENTIAL contribution of each asset type

Asset	Economic	Social	Environmental	Financial return	Scottish Crown Estate contribution	
Arable Farms					High	
Livestock Farms					Moderate	
Forestry				<ul style="list-style-type: none">• New planting capital growth• Strong market for sales to generate capital for reinvestment	Minor	
Rural Houses		<ul style="list-style-type: none">• Invest in rural affordable housing			Minimal / negative	
Rural Business	<ul style="list-style-type: none">• Invest in rural business premises	<ul style="list-style-type: none">• Invest in rural business premises			Significant change from current (<i>reduction in Italics</i>)	
River Fishing						
Minerals						
Development Land	<ul style="list-style-type: none">• Provide housing and business premises• Provide quality greenspace	<ul style="list-style-type: none">• Provide housing and business premises• Provide quality greenspace	<ul style="list-style-type: none">• Potential to ameliorate vacant and derelict land	<ul style="list-style-type: none">• Long-term capital growth• Self develop for greater return• Rental revenue from retained properties		
Urban	<ul style="list-style-type: none">• Invest in commercial portfolio where it will make most difference to local economies	<ul style="list-style-type: none">• Grow portfolio of social housing		<ul style="list-style-type: none">• Grow and diversify portfolio for capital and revenue• Wide range of asset type and geographic opportunities		
Harbours	<ul style="list-style-type: none">• Co-invest in port developments			<ul style="list-style-type: none">• Co-invest in port developments		
Coastal	<ul style="list-style-type: none">• Co-invest for socio-economic benefits• Enable improved commercial access	<ul style="list-style-type: none">• Co-invest for socio-economic benefits• Enable improved recreational access				
Aquaculture		<ul style="list-style-type: none">• Use landlord position to strengthen social licence	<ul style="list-style-type: none">• Use landlord position to strengthen sustainability• Collaborate on improved consenting framework	<ul style="list-style-type: none">• Social and environmental gains could require greater investment		
Offshore Wind		<ul style="list-style-type: none">• Use landlord position to unlock social gains	<ul style="list-style-type: none">• Adding further hurdles could reduce scheme viability and lease uptake, reducing renewable energy generation	<ul style="list-style-type: none">• Adding further hurdles could reduce scheme viability and lease uptake, reducing value growth		
Wave and Tidal	<ul style="list-style-type: none">• Continued pump-prime could aid long-term sector competitiveness and growth	<ul style="list-style-type: none">• Continued pump-prime could aid long-term sector competitiveness and growth		<ul style="list-style-type: none">• No significant revenue generation foreseen in short or medium-term		
Marine Infrastructure				<ul style="list-style-type: none">• New data infrastructure could attract investment and revenue		
Carbon Capture and Storage				<ul style="list-style-type: none">• No significant revenue generation foreseen in short or medium-term		

National evidence-base

Asset	Economic	Social	Environmental	Financial return	National evidence-base	
Arable Farms	Good	Poor	Moderate	Good	Good	
Livestock Farms	Good	Poor	Moderate	Good	Moderate	
Forestry	Good	Poor	Moderate	Good	Poor	
Rural Houses	Poor	Poor	Poor	Good		
Rural Business	Good	Poor	Poor	Good		
River Fishing	Moderate	Poor	Poor	Good		
Minerals	Moderate	Poor	Poor	Good		
Development Land	Poor	Poor	Poor	Good		
Urban	Poor	Poor	Poor	Good		
Harbours	Moderate	Poor	Poor	Good		
Coastal	Good	Moderate	Moderate	Good		
Aquaculture	Good	Moderate	Moderate	Good		
Offshore Wind	Good	Poor	Moderate	Good		
Wave and Tidal	Good	Poor	Moderate	Good		
Marine Infrastructure	Poor	Poor	Poor	Good		
Carbon Capture and Storage	Poor	Poor	Moderate	Good		

Board	Eighth Board Meeting	BD(2018)08
Meeting date	22 August 2018	
Paper title	Rural Strategy – Issues BD(2018)8.10	
Security classification	Restricted	
This document contains commercially sensitive and confidential information and may relate to the formulation of policy.		
Presented by	Andrew Wells	
Author	Andrew Wells	
Annexes	Annex A: Draft list of material issues Annex B: Draft list of strategic priorities Annex C: SWOT analysis for the Rural Portfolio	
Recommendation	The Board is invited to comment on and agree the material issues and strategic priorities relevant to a future rural strategy.	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

1. Introduction

Following the establishment of Crown Estate Scotland and its first year of operation a clear need has been identified for a broader consideration to be given to a strategic framework/policy which can inform future decision-making concerning asset management. Given the focus on the rural estate to raise capital over the last year, the nature of the rural portfolio, ongoing investment requirements/landlord obligations, along with the wider stakeholder and political interest in rural matters, the development of a rural strategy is considered a priority.

A timetable has been agreed to develop this in 2018 with a focus on reaching initial agreement (and consulting on) on the key issues that are relevant to this strategy by the end of Q2 followed by the development and finalisation of a fully consulted, strategic position paper and action plan to be linked with the business plan in Q4. As part of this process a commitment has been made to undertake a full public consultation to ensure stakeholder input into the development of the strategy to generate support for its delivery.

The rural estate presents a wide range of opportunities for the delivery of the corporate vision to ‘innovate with land and property to create prosperity for Scotland and its communities’. The benefits to Scotland / value we currently generate from the management of the Rural portfolio and the areas which present opportunities for innovation include (among others): the creation of wealth and economic growth; provision and investment in viable, prosperous land-based businesses

operating on the assets; maintaining/ promoting employment through the business use of Crown Estate Scotland assets; provision of safe, well equipped, well maintained homes and business premises; opportunities for diversified rural enterprises / new rural businesses; facilitating built development and infrastructure and facilities that provide public and community benefit/ recreational benefits; and protection and enhancement of natural and cultural heritage assets.

However, the future of the rural estate is likely to be affected by longer term corporate (Crown Estate Scotland) business requirements along with a wide range of external market, socio-economic, political, environmental and legislative factors/issues which will have an impact on the opportunities for Crown Estate Scotland to meet this vision.

This purpose of this session with the Board is to discuss and agree the main issues and strategic priorities that are considered most important for a future rural strategy.

To assist this process, a draft list of the issues and strategic influences/considerations, that are considered relevant to the future of rural estate management in Scotland and Crown Estate Scotland's corporate business have been set out, along with an analysis of the strengths, weaknesses, opportunities and threats (SWOT) of the current portfolio.

2. Discussion session with the Board

The objectives for the session are to:

- 1. Identify the priority material issues that need to be addressed by the rural strategy taking account of corporate business requirements, wider external influences and the characteristics of the current portfolio.**
- 2. Discuss and agree the strategic priorities that need to be addressed by the rural strategy.**

To facilitate discussion the following details have been provided:

1. A summary of material issues considered relevant to the business (Annex A)
2. A set of current strategic priorities on which Board guidance is needed to inform decision-making (Annex B).
3. A SWOT analysis for the rural portfolio (Annex C).

To support the session/discussion, additional information will be provided showing:

4. Details of the current asset strategy used to inform business decision-making.
5. Detailed information about each rural estate, including SWOT analysis
6. Maps of each estate

Items 4,5 and 6 will be provided at/prior to the Board meeting to facilitate members input and to assist the discussion.

3. Background to discussion

Crown Estate Scotland manages four rural estates extending to c.37,000 ha of rural land. These include Fochabers and Glenlivet Estates in Moray, Whitehill Estate in Midlothian and Applegirth Estate in Dumfries and Galloway.

The portfolio has historically been held as an investment portfolio formed by mostly let property and areas of forestry managed in-hand.

The rural estate consists of a variety of asset classes including agricultural units held under various tenancy arrangements, commercial forestry, residential property, strategic/development land, salmon fishing rights, sporting interests and minerals.

Management decisions during the first year of operation of Crown Estate Scotland have been based on a draft strategic framework prepared for the rural portfolio alongside the development of the Corporate Plan. This outlines the strategic aims for each asset class and has been used within the 'business as usual' context to guide preparation of budgets, inform the rural business plan and facilitate delivery of Corporate objectives in line with the organisational vision. A copy of this strategy will be provided in advance of the Board meeting.

A key consideration in the development of the strategic approach identified, has been the need to ensure the impact on revenue is minimised, future requirements for non-income generating capital expenditure is minimised and opportunities for revenue growth are protected / not compromised.

The capital budgets prepared for the duration of the current Crown Estate Scotland Corporate Plan are in-line with this framework and the agreed draft farm sales framework. To meet capital cash flow requirements in the first year of operation, a broad strategic assessment was undertaken of each estate to help inform decision-making regarding the release of capital from sales based on an appraisal of core/non-core assets. This has informed the current budget. Elements of this are included in the rural estate summaries (to be provided).

To help inform the development of the future rural strategy, a set of material issues has been drafted (see Annex A) which are considered relevant to the future of the rural business and wider corporate considerations. These take account of financial considerations, societal / community / stakeholder concerns, political sensitivities, operational management/market considerations, environmental issues and other potential drivers for change.

Following the first year of operation, there is now a pressing need to establish the strategic priorities for the rural business in the context of emerging corporate business requirements, rural estate management issues, capital and revenue management considerations, stakeholder/tenant expectations/requirements and wider business considerations. A list of these priorities is provided in Annex B.

To assist the Board's understanding of certain operational management considerations relating to the rural portfolio and each estate, a SWOT analysis is also provided (see Annex D) and is included in the estate summaries.

The Board is invited to:

- **Comment on and agree the strategic priorities and material issues relevant to a future rural strategy;**
- **Provide advice on Board member involvement with this project.**

NB: in preparation for the discussion Board members are asked to focus on Annexes A and B. Other annexes and supporting information are provided for background purposes to assist understanding of the rural portfolio and the current strategic approach.

4. Subsequent steps

Following the Board meeting the results of the discussion will be incorporated into a draft strategic issues framework which (once agreed) will be used for initial consultation with key stakeholders, including the tenant farmers representative group. This will then be used, taking on board stakeholder feedback to develop a draft strategy for consideration by the Board at the November meeting.

5. Financial

The rural strategy is being developed as part of an internal business process undertaken by Crown Estate Scotland staff. Any expenditure requirements will be associated with the public consultation process, but it is not anticipated these costs will be significant and will be restricted to the publication of documents and any associated promotional costs.

6. Sustainability

The long-term sustainability of the Rural portfolio is a key consideration in the development of the rural strategy and it is intended that sustainability is a core element which will be embedded throughout the future strategy.

7. Legal implications

There are no anticipated legal considerations

8. Risk

The risk to the business from not developing and agreeing a rural strategy is significant in terms of the potential for inertia in business decision-making, failing to take advantage of business opportunities and the potential impact on tenant's businesses and homes.

9. People considerations

None

10. Reputational / PR implications

There is significant interest from stakeholders regarding the development of the rural strategy, particularly from the agricultural sector. The development of the strategy therefore has significant potential for generating both positive and negative PR response depending on various outcomes.

Annex A (Draft) Material Issues (Rural Portfolio)

Corporate	Financial	Socio-economic	Political	Market	Environmental	Operational
Rural portfolio purpose / vision	Funding capital lease obligations / investment	Who benefits? (individual tenants / local communities/ Scotland	Land reform / community ownership / empowerment /management control	Prospects/ opportunities for rent / revenue growth	Protecting / enhancing natural capital / wildlife management	Criteria for core / non-core
Delivery of Sustainable Development Goals (SDG's)	Improving revenue and capital performance of different asset classes	Economic regeneration through infrastructure investment (priorities)	Future of farm tenancies / provider of tenancies /politics of tenant farming	Commodity price volatility / subsidy /housing market volatility	Unsustainable management practices / ecosystem restoration	Management of transition (response to policy changes / support mechanisms)
Delivery of Corporate Plan / Investment Strategy (priorities)	Driving capital (book value) growth priorities / new investments	Population change / demographics	Delivery of / understanding community aspirations	Impacts of Brexit	Business (environmental) accreditation	Dependency and inefficiency of certain farm businesses
Delivery of National Performance Framework	Managing cost base – effectiveness/ efficiency (Gross to net /priorities)	Housing supply in rural areas	Policy impacts on tenant's businesses	Future viability of agricultural units	Climate change impacts (weather related)	Promoting business diversification / best practice
Balance of asset types / strategic rationale – does capital locked up deliver best returns?	Identifying benchmarks/targets	Housing standards	Transparency /engagement / 3 rd party input into decision-making	Costs of energy / business inputs	Pest and disease impacts / management of INNS	Priorities for restructuring farm tenancies
Capital investment requirements – to be raised from Rural Portfolio	Capital subsidisation requirements (to or from rural portfolio)	Education / skills /training Knowledge exchange	Food security	Capital growth opportunities (development land / commercial)	Renewable energy potential	Opportunities for new entrants / succession / farming ladder progression
Sustainable management priorities	Low yield / revenue performance of agricultural sector	Digital connectivity	Independence /uncertainty	Demand and supply trends	Management of protected sites	Attracting / supporting entrepreneurial tenants

Annex B: Draft Strategic Priorities

Crown Estate Scotland acts primarily as an asset manager, working in partnership with tenants, agencies, communities and stakeholders to add value. This feeds into our vision of innovating with land and property to create prosperity, helping deliver the Scottish Government's purpose of sustainable and inclusive economic growth.

The asset management tools we have available to deliver our strategic aims include:

1. Buying and selling land and property in line with strategic priorities
2. Deciding how and to whom we let/lease property, for what type of activity, for how long and under what terms to promote sustainable socio-economic development.
3. Investment in buildings/built development/planning (zoning of suitable land for residential and commercial development), infrastructure, business premises, environmental works, diversified business enterprises using land or property under management.
4. Restructuring tenancies/ driving performance through lease re-gearing, lease surrenders, rent reviews, lease assignments.
5. Placemaking – through investment in infrastructure / natural capital and cultural heritage assets under management.
6. Proactive asset management/use of knowledge and expertise to identify new opportunities to develop the estate/ master-planning for integrated asset management.

To guide asset management decision-making, a strategic framework is required which identifies key priorities. Those considered most relevant are listed below.

The Board are asked to comment on these priorities and to identify those or any alternatives that should be addressed by the rural strategy.

Draft Strategic Priorities

- *Determining the purpose for holding a rural portfolio within the context of the whole business / identifying the longer- term corporate vision for the rural estate within the whole portfolio.*
- *A strategic position on the priorities for sustainable development of the rural portfolio*
- *A strategic position on the benchmarks/targets used to drive decision-making and monitor performance.*
- *A strategy to deliver future corporate capital requirements from rural assets/requirement for capital income for re-balancing or reinvestment.*
- *The strategic criteria for determining asset sales to meet capital income requirements and reduce capital expenditure i.e. a process for identifying core and non-core assets (in all rural asset sectors) to inform decisions regarding asset sales, investment decisions, potential purchases and leasing.*

Annex B: Draft Strategic Priorities

- *Decisions on the relative importance of revenue and capital performance in determining strategic priorities.*
- *A strategic position regarding where capital investment is targeted and in what sectors.*
- *A strategic position regarding cross-subsidisation of the rural portfolio from capital raised elsewhere in the business.*
- *A strategy for identifying the balance of asset classes / land grade / type that is appropriate for a future rural portfolio and the rationale behind this regarding agricultural sectors (dairy, livestock, arable, etc) / forestry / residential / development land / minerals / salmon fishings.*
- *A process for assessing and prioritising the non-financial values generated to inform decision-making.*
- *A position regarding how CES sees itself as a long term, significant provider of agricultural tenancies in Scotland.*
- *A strategy for dealing with the cost / low yield of the agricultural portfolio.*
- *A strategic approach to restructure farming units / estate portfolio to address the impacts of Brexit / ensure viability of farm units post Brexit.*
- *A strategic position on the time horizon relevant to the rural strategy.*
- *A position on the risk appetite for the delivery of the rural strategy.*
- *A strategy for investing in the directly let and farm residential portfolio to increase energy efficiency to meet new government targets and to increase yield.*

Annex C: SWOT analysis – Rural Portfolio

Strengths

- Long term capital growth in land values for good quality land
- High reversionary premium across the portfolio - opportunity for capital /balance sheet growth
- Diversity of farm enterprise type
- Diversity of asset types (forestry, sporting, minerals, residential, salmon fishings, development land) providing opportunities for income growth
- Development land potential high in certain areas
- Recognised as a significant provider of farm tenancies/ supporting agricultural tenant base in Scotland
- Significant diversification opportunities based on diversity of assets
- Good proportion of well-equipped family sized farms
- Good proportion of entrepreneurial tenants
- Relative security of rental income given relatively low base rents (protected by legislation)
- High value public good outcomes / added value
- Crown Estate Scotland recognised as progressive, valued landlord
- Good number of successor generation farm tenants coming through
- Relatively liquid asset providing opportunities for capital release
- Granter of leases of significant salmon fishing angling rights (140 agreements across 50 rivers) providing access at reasonable rates to local communities & supporting conservation

Weaknesses

- High dependency on agricultural sector / rental income
- High requirement for non-revenue generating capital investment requirements in fixed equipment / obligations resulting from condition survey
- Short to medium term levelling of capital value growth
- Variation in rental values for different types of land
- Dominance (by area) of lower productive land in portfolio (land grade, soil quality and location)
- Ageing farm tenant profile - not driving forward or managing farm units to highest standard – impact on land quality and future rent income.
- Subsidy dependency – particularly for upland livestock businesses
- Uncertain policy environment creating business viability risk
- Exposure to climate change impacts – adding cost to tenants and landlord
- Exposure to increased regulation – adding cost to tenants and landlord
- Tenure arrangements limit opportunities for land use change
- Succession legislation contributes to 'bed blocking' on certain agricultural units to detriment of more enterprising tenants
- Balance of units towards low yielding / capital intensive (high maintenance) property / high renewing / replacement obligations from ageing fixed equipment
- Lack of tenant investment and care in certain holdings
- Unsustainable management practices operated by some tenants (waste, energy use, natural resource depletion, land impoverishment, diffuse pollution, etc)

Annex C: SWOT analysis – Rural Portfolio

- Financial return dependency on Total Return with low net revenue yield (1.5- 2%)
- High reliance on agricultural rental income
- Farm size / critical mass in relation to market changes / economies of scale
- Mindset of certain tenants -dependency culture / lack of entrepreneurialism
- Lack of ability to react timeously to market conditions and opportunities (fleet of foot)
- Decline in wild salmon and sea trout numbers significantly reduces capital value and revenue income from this asset sector
- Expiry/Loss of significant income stream from mineral operation (electricity from methane income and landfill income at nether Dallachy – out of our control)

Opportunities

- Restructuring of holdings / diversification of asset base
- Capitalisation of reversionary premiums through AHA lease surrenders
- Improving gross to net revenue ratio through active asset management
- Pursuing development land / strategic development schemes
- Development of partnerships / collaborative projects
- Attracting entrepreneurial tenants /land use via open market letting opportunities
- Development of long -term business relationships with entrepreneurial tenants
- Investment in natural capital enhancement / ecosystem restoration / flood management
- Attracting third party investment / grants in infrastructure / assets – to add financial, social and environmental value
- Investment in core holdings to generate rental growth / increase competitiveness
- Promoting development of use of information technology to support business growth / use of CES expertise.
- Growth in global demand for food / access to new markets driving business growth
- Development of new income streams from existing assets: New commercial and leisure enterprises; renewable energy schemes; partnerships with stakeholders/tenants
- Development of new mineral operations on suitable land.
- Enhancement of social (community) and environmental outcomes
- Review of non-core assets and associated activities and expenditure
- Supporting government policy / trialling and evaluating policy changes
- Reputational gains from being a landlord of choice / exemplary landlord
- New woodland establishment on existing or acquired land
- Supporting skills development
- Facilitating succession planning to resolve issues and unlock potential
- Ecosystem valuation / payments for Ecosystem Services
- Opportunities for information / knowledge exchange / education – encouraging best practice
- Investment in new higher yielding assets -purchase of land with potential
- Investment in support for emerging gold-mining industry to generate improved returns
- Support for partnership schemes to remove barriers to salmon migration/ improve habitats - increase areas for letting, benefits for revenue return and capital value.
- Investment in national & local research to investigate and reverse decline in migratory fish numbers

Annex C: SWOT analysis – Rural Portfolio

Threats

- Impacts of Brexit – complex and protracted change in trade rules and subsidy regime
- New / existing legislation/regulation which adds to landlord and/or tenant costs
- Volatility of commodity markets
- Political impacts / land reform
- Climate change impacts – affecting land-based businesses
- Rising costs of energy
- Exchange rate fluctuations
- Biosecurity / pests and diseases
- Long-term soil health / condition of natural capital
- Challenge of balancing stakeholder interests
- Loss of skills / lack of opportunities for next generation farmers
- Influence of narrow stakeholder interests / third party engagement on policy / strategy

Board	Eighth Board Meeting	BD(2018)08
Meeting date	22 August 2018	
Paper title	Annual Report & Accounts BD(2018)8.11	
Security classification	Restricted	
This document contains commercially sensitive and confidential information and may relate to the formulation of policy.		
Presented by	Simon Hodge	
Author	Esther Black	
Annexes	Annex A: Performance Report & Accountability Report Annex B: Accounts	
Recommendation	The Committee is invited to note the content of the annexes.	
The Board secretary or Chair should be advised if the contents of this paper give rise to any conflict of interest		

Background

1. Annexes A and B have been prepared by the Head of Corporate Operations and by the Head of Finance & Commercial respectively.

Discussion

2. The final designed version will be portrait throughout and in line with our usual style.
3. Board members' suggested amendments have been incorporated. Our sponsor team have asked for further time to review.
4. The designed version will be signed by the Chief Executive and Auditors. Auditors will liaise with Audit Scotland for it to be laid in Parliament. We expect laying to take place late September (or possibly early October), with content sent to media as soon as is practical afterwards.
5. There is some repetition in different parts of the documents. This is down to two factors:
 - The auditors' format included repetition. For example, the format required risk to be covered in both the Performance Report and the Accountability Report; and
 - Readers tend to not read start to finish (they dip in and out of the document) so we need to repeat some key points to ensure they are picked up.

Board paper

Financial

6. n/a

Sustainability

7. We propose a short print run only e.g. 150 copies to enable staff and key stakeholders (including the Royal Households) to receive a hard copy.

Legal implications

8. The annual report is a legal obligation under The Crown Estate Scotland (Interim Management) Order 2017 (article 18).

Risk

9. n/a

People considerations

10. n/a

Reputational / PR implications

11. Providing a clear, accessible and engaging annual report is an important element of transparency.

12. Report launch PR to be considered in due course. A staff and agents' event is proposed for early-mid October.

Annex A

Crown Estate Scotland (Interim Management)

(Hereinafter referred to as Crown Estate Scotland)

Annual Report and Accounts

31 March 2018

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.

Laid before the Scottish Parliament by Scottish Ministers under Section 22(5) of the Public Finance and Accountability (Scotland) Act 2000.

Contents

Commented [BE1]: Page numbers to be finalised at design stage

Performance Report.....	3
- Overview	3
- Performance Analysis	Error! Bookmark not defined.
Accountability Report	5
- Members Report.....	5
- Remuneration and Staff Report.....	6
- Parliamentary Accountability and Audit Report.....	9
Financial Statements for the year ended 31 March 2018.....	11
- Statements of Comprehensive Income	11
- Statement of Financial Position	12
- Cash Flow Statement	13
- Statement of Changes in Taxpayers Equity	14
- Notes to the accounts	15
- Presentation to Parliament and Publication	27

Introduction

Welcome to Crown Estate Scotland's first annual report.

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

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

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

Section 1: Performance Report

1.1 Overview

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

1.1.1 Joint statement from the Chief Executive and the Chair³

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

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

² Throughout this document, 'the estate', 'the assets' or the Scottish Crown Estate refers to the land, property and rights currently managed by Crown Estate Scotland. Within the estate, there are four categories of assets: rural, coastal, marine (comprised of Aquaculture and Energy & Infrastructure), and urban.

³ Simon Hodge joined us as Chief Executive in April 2018 so this report reflects the achievements of his predecessor Ronnie Quinn working with the staff team and the Board. The Board was established in May 2017 following appointment by Scottish Ministers. More on Members and the public appointments process is at <http://www.crownestatescotland.com/about-us/structure-governance>

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

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

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

We agreed with Scottish Ministers that our first year would be focussed on delivering four main objectives. We list these in Section 1.1.2 and outline how we have delivered. In sections that follow, we provide more detail and analysis.

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

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

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

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

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

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

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

⁴ See <http://www.crownestatescotland.com/maps-and-publications/download/171>

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

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

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

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

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

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

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

Simon Hodge, Chief Executive

Amanda Bryan, Chair

Date

Crown Estate Scotland

⁵ See <http://www.crownestatescotland.com/maps-and-publications/download/115>

1.1.2 2017-18 objectives and what we delivered

Commented [BE2]: This section as a graphic

1.

What we said we would do

Maintain gross revenue and manage operating costs

What we did

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

2.

What we said we would do

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

What we did

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

3.

What we said we would do

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

What we did

- Raised £10.1 million in capital receipts, with a net balance (before transfers from revenue) of £7m. This includes

⁶ Throughout Section 1 and 2 of this annual report, due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

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

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

4.

What we said we would do

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

What we did

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

Case study 1 Helping Scotland 'value' nature

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

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

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

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

Tenant farmer Jim Simmons said:

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

Crown Estate Scotland Head of Property, Andrew Wells, said:

"This has been a promising start as we try to find a way to better understand how land businesses can use emerging tools like this to better understand their impacts and dependencies on natural resources and make more sustainable business decisions.

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

Commented [BE3]: Four case studies dotted throughout document to break up large sections

1.1.3 Who we are and what we do

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

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

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

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

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

MAP with updated valuations

Purpose

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

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

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

Business model – partnerships and the long-term view

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

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

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

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

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

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

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

This is reflected in our vision, goals and values.

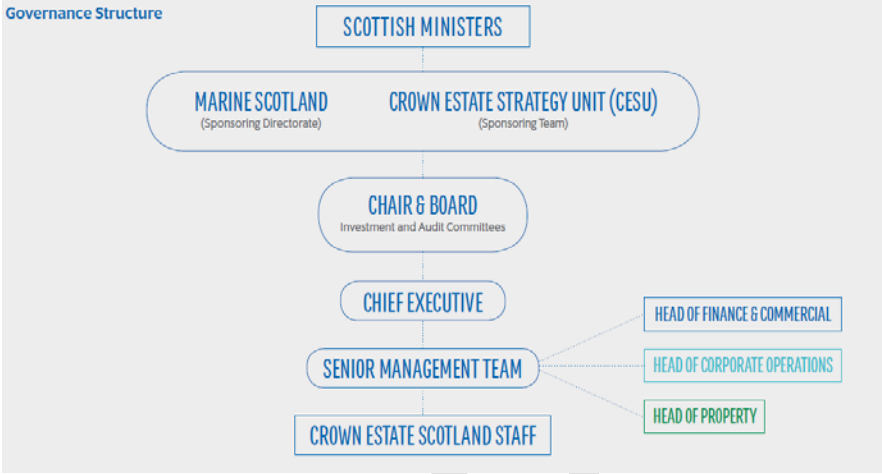
Commented [BE4]: graphic with short descriptor of each of the three strands of our role and signposting to case studies



Strategic objectives

- Our strategic objectives, as laid out our 2017-2020 corporate plan, are to
- 1. Contribute to Scotland’s economic, social and environmental well-being
 - 2. Grow revenue and enhance capital value of the estate
 - 3. Develop local decision-making and success, with a particular focus on communities and coastal local authorities
 - 4. Build confidence and trust in the organisation
 - 5. Develop and deploy our people’s expertise to deliver success

Our governance structure is illustrated below and our organisational structure is [here \(LINK to updated org chart on website\).](#)



Commented [BE5]: Add separate bubbles for Investment Committee and Audit & Risk Committee, plus Head of Marine role

Case study 2 Supporting Islands' economic development

Commented [BE6]: Pull out box

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

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

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

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

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

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

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

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

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

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

1.1.4 Forward-look for 2018-19 and beyond

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

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

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

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

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

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

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

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

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

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

Table X: Operating environment, policies, stakeholders and look ahead

Influencing factor	Rural	Coastal	Marine (Energy & Infrastructure)	Marine (Aquaculture)	Urban
Operating environment inc any current shifts and trends	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. Agricultural tenancies place responsibility for new / replacement fixed equipment and other obligations on Crown Estate Scotland as landlord. With over 200 agricultural tenancies, this responsibility has a strong bearing on our capital planning. Forestry values continue to appreciate while river fishings value are impacted reduced catches continued decline in salmon populations.	Scottish ports saw significant drops in tonnages of cargo between 2010 and 2016 due mainly to global economic factors and, in the case of Hunterston, the closure of the last coal fired power stations in Scotland. Inward investment and diversification into the cruise ship and decommission markets have started to reverse this trend. The marine leisure market has proved to be resilient but faces challenges if it is to grow e.g. the availability of capital for infrastructure works, an ageing demographic and competition from other leisure sectors.	The route to market – covering issues relating to grid, financial support, and access to appropriate seabed – remain key for the offshore renewables sector. Global and national carbon reduction targets continue to drive investment in R&D, commercialisation and supply chain. The demand for green electricity will grow as heat and transport are decarbonised. 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.	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. There is increased interest in seaweed cultivation and harvesting as demand from pharmaceuticals, food and cosmetic industries grow.	Urban property market continues to be influenced by economic uncertainty. Although 2016's growth in the retail sector did not continue into 2017, the Edinburgh office market has performed solidly with increasing levels of take up, solid occupier demand and reducing supply of good quality space.
Policies impacting performance	Aligning with the 2017-18 Programme for	A key consideration in our work with coastal	Government policy continues to be central	The sector benefits from clear government	The Scottish Government's

Commented [BE7]: Carry column headings across all pages

	Government and wider Scottish Government policy framework, our priorities include encouraging new entrants (Scottish Government's <u>Farming Opportunities for New Entrants</u>) diversification and investment by tenants, working to build resilient farm businesses, identifying new income streams and enhancing natural capital.	assets is Scotland's National Marine Plan which was developed by Scottish Government to reflect the range of sectoral uses and activities. Two key areas of focus are ports and marine leisure tourism	to offshore energy development, with private sector investment largely contingent on contracts awarded by the UK Government for low carbon generation. We work closely with Scottish Government to understand emerging policy and how we can best contribute to delivery. New leasing for offshore renewables will be in accordance with Marine Scotland's forthcoming Sectoral Plan for Offshore Wind.	support for its development ambitions. Aquaculture is subject to Scotland's National Marine Plan, local authorities' development plans as well as the objectives of Scotland Food & Drink's Aquaculture 2030 Vision project	Economic Strategy and Agenda for Cities make a clear commitment to supporting investment in cities and their regions. Ensuring office, retail and other types of accommodation are of a high quality, by creating sustainable, efficient and desirable spaces, helps to attract businesses, consumers, employers and employees to city centres bringing related economic and social benefits.
Stakeholders	Tenants, local communities, development trusts, local authorities, industry bodies and farmers' unions, FCS (Forestry Commission Scotland) and Scottish Land Commission, SNH (Scottish Natural Heritage), SEPA (Scottish Environment Protection Agency),	Tenants, users of the marine environment across a range of sectors, activities and industries, harbour authorities, sector and industry bodies e.g. British Ports Association, VisitScotland, RYA Scotland, and coastal communities generally.	Government and economic development agencies, statutory nature conservation bodies, industry bodies, regulators and planning authorities, energy developers and local authorities.	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	Tenants, local authorities, business improvement districts and other organisations such as Chambers of Commerce.

	HLF (Heritage Lottery Fund), HIE (Highlands and Islands Enterprise) and SLE (Scottish Land & Estates), national parks and District Salmon Fishery Boards & Local Fishery Trusts, Fisheries Management Scotland			priority stakeholders as are cetacean and seal conservation groups.	
Look ahead, opportunities to create value	<p>We want to remain a champion of integrated, multiple-use land management.</p> <p>Glenlivet – located in the UK’s largest national park – demonstrates how farming, conservation, tourism and sporting can work side-by-side and help regenerate rural communities.</p> <p>Our three other estates also evidence this approach to integration combining farming, residential, mineral operations</p>	<p>Though there are limited opportunities for generating capital, there is a resilient ports sector with major investment projects underway</p> <p>Marine leisure is a key component of the Scottish tourism market. Industry bodies are working to make Scotland “A marine tourism destination of first choice for high quality, value for money and memorable customer experience.”⁹</p> <p>We will continue to</p>	<p>Offshore wind contribution is increasing and will continue to as new projects start operating. Wave and tidal energy technologies are currently less widely deployed and are at an earlier stage of commercialisation, with potential to grow in future.</p> <p>Oil & gas, which accounts for most of our offshore pipeline agreements, is undergoing structural change as the North Sea basin matures. Meanwhile, there</p>	<p>Brexit-related uncertainties include the possibility of trading tariffs and the strength of the sterling.</p> <p>There are challenges however, including biological and environmental pressures (e.g. sea lice in farmed salmon, visual impact of farms, water quality for shellfish), a regulatory regime that is perceived as complex and, for shellfish, access to development finance.</p>	<p>Due to the attractive returns and relatively low property management requirements, urban property (acquisition and redevelopment) is a potential candidate for further investment. This will be explored as we further develop our investment strategy.</p> <p>We will also explore the opportunities for urban property development and the alternatives for optimising total contributions from our strategic landholdings.</p>

⁹ Scottish Marine Tourism Strategy

	<p>sporting & development land.</p> <p>The diversity of the rural estate provides a range of opportunities for growth. This is balanced by some uncertainties particularly in regard to the impact of Brexit.</p> <p>The uncertainty surrounding the impact of Brexit and other factors mean there is limited potential rental growth from land let for agriculture.</p> <p>Continuing to explore and supporting other commercial land uses such as mineral operations remains an area of focus.</p>	<p>support marine and coastal tourism initiatives and the 'Awakening the Giant' strategy.</p>	<p>may be a demand for more electricity transmission cables. Domestic telecommunications are increasingly driven by community-focussed agendas while cables for large-scale ad international telecommunications may offer some development potential. There is potential for carbon storage but the scale and timing of activity in this area will be influenced by the market models adopted, and the effect of other policy and regulatory factors.</p>	<p>There is an opportunity to grow the emerging seaweed / alginate industry in Scotland in a socially and environmentally sustainable way.</p>	
--	--	---	---	--	--

Table X: key risks associated with specific parts of the business

Asset	Description	Impact	Mitigation
Rural	Brexit and associated impacts on agricultural support affects tenant business viability	Significant impacts on tenant farmers leading to tenant defaults, a lack of husbandry and reduced revenue over many years. Potential	Hep provide business planning support and advice to tenants

		to impact on in-hand forestry, reduced capital value and increased costs.	If necessary look for opportunities to rationalise farm holding structure into viable units. Diversify portfolio to lessen impact of major collapse in one or more core sectors.
Coastal	Insufficient funds to maintain and improve marine assets.	Reduction in capital value, low revenue growth, deterioration of existing assets, increased maintenance costs, increase in liabilities with associated financial and Health & Safety implications.	Build coalition of support for capital investment. Ensure incoming tenants are of sufficient standing to meet lease obligations, including decommissioning and seabed restoration.
Marine (Energy & Infrastructure)	Capital investment required to create new offshore wind infrastructure may not be attracted to Scotland.	Projects not developed, Scotland's renewable energy and other policies not advanced, revenue and capital potential not realised, loss of staff expertise.	Early engagement with industry (to establish market appetite and key issues), UK and Scottish governments, and NGOs and sector bodies that may be impacted. Reducing consenting risk for project development by committing to lease in accordance with Marine Scotland's forthcoming Sectoral Marine Plan for Offshore Wind.
Marine (Aquaculture)	Significant disease impacting aquaculture production, sector development and rental income.	Large scale outbreak of fish disease. Significant impacts on fish farmers leading to tenant defaults and reduced revenue over many years	Promote best practice and help fund R&D Work closely with tenants to manage economic impacts

			Discuss possibility of additional sites to remove healthy stock from risk area
Urban	Significant void period/s following upcoming lease expiries and tenant break options.	Reduced revenue	Dialogue with tenants and proactive and timely marketing strategies.

DRAFT

Case study 3 Helping the shellfish industry thrive

The shellfish industry brings in almost £10 million to the Scottish economy¹⁰ with the bulk of production happening under lease from Crown Estate Scotland.

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

In 2017-18, in conjunction with the Association of Scottish Shellfish Growers, we funded [new research](#) to establish where and how collective investment could help the Scottish shellfish sector grow and expand over the coming years.¹¹

Crown Estate Scotland Aquaculture Operations manager, Alex Adrian, said: “A better understanding of economic drivers and challenges of a viable shellfish industry and how this translates into the nature of businesses and developments is vital if Scotland is to realise the undoubted potential of this sector.”

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

¹⁰ <http://www.gov.scot/Topics/marine/Fish-Shellfish/FactsandFigures>

¹¹ See <http://www.crownestatescotland.com/maps-and-publications/download/118>

1.1.5 2017-18 performance summary

Highlights from 2017-18

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

Corporate

1. Delivering tenant and stakeholder satisfaction¹²

- Independent research with tenants and stakeholders showed the following results (with 1 poor and 10 excellent):
 - High levels of awareness of Crown Estate Scotland among tenants (99%) and key stakeholders (100%), following a comprehensive engagement and communications programme
 - The majority of agricultural, residential and aquaculture tenants surveyed stated that they were quite knowledgeable about Crown Estate Scotland. Many would speak positively of Crown Estate Scotland to others (ratings range from 6.7 to 7.9).
 - Over 70% tenant satisfaction. Feedback on what we can improve has been used to develop a tenant service charter as well as informing changes in how we communicate with tenants.¹³
 - Wider stakeholders (such as industry and membership bodies and NGOs) rated Crown Estate Scotland staff trustworthiness at 8.2, expertise at 8.2 and professionalism as 8.1.
 - Lower ratings were given on quality of communications (6.8), responsiveness (6.8) and understanding tenant needs (6.7), with the report noting that ratings here were not particularly negative but rather a number of stakeholders said it was too early in the life of Crown Estate Scotland to rate these aspects more positively.
 - 70% of stakeholders interviewed stated that they believed the methods of engagement we use are satisfactory. Where this was not believed to be the case, this was due to limited rather than unsatisfactory engagement.

Commented [BE8]: Pull out box

Business Plan action no: 1, 2, 3

Corporate Plan KPI/s: 7, 8

2. Creating new opportunities for local communities to manage assets

- Developed a robust, open and transparent process for our Local Pilots Scheme
- This was informed by a series of meeting and workshops across Scotland, as well as a consultation on the draft Scheme. The Scheme, launched in June 2018, enables communities and local authorities to apply to Crown Estate Scotland to manage Scottish Crown Estate assets in a way which will improve the economic,

¹² See summary of results at <http://www.crownestatescotland.com/maps-and-publications/download/167>

¹³ Insert link once published

social and environmental well-being of their local area. This initiative marks a step-change in how the assets are managed, signalling our drive to involve communities much more.

Commented [BE9]: Pull out box

Business Plan action no: 4

Corporate Plan KPI/s: 2

3. Strengthening partnerships through education and community work

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

Business Plan action no: 1, 4

Corporate Plan KPI/s: 8, 18

4. Ensuring openness and good governance

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

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

Corporate Plan KPI/s: 3

5. Excellence in health & safety

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

Business Plan action no: 12

Corporate Plan KPI/s: 17

6. Rural

- Invested £2.2m capital in the rural estate, including new buildings infrastructure, development and lease restructuring. This included:
 - A new large general purpose building on a Glenlivet agricultural unit
 - A range of improvements at other properties to improve water supplies, prevent damp, carry out necessary electrical upgrades and upgrade roofs
 - £50,000 contribution to Tomintoul & Glenlivet Landscape Partnership works
 - Surrender & waygo payments to release units for restructuring opportunities including re-letting or sale
 - Major drainage, tree-planting and hedging at Whitehill to complete the programme of restoration of former opencast coal land for productive agriculture
 - An ongoing programme of electrical and asbestos related works was funded covering residential units and farmhouses.
- Took a leading role in trialling the internationally recognised Natural Capital Protocol across the entire 23,000 hectare Glenlivet Estate, an upland tenant farm, and a lowland arable business on the Fochabers Estate. The final report from this trial (LINK) will inform how farmers can potentially use a natural capital approach to inform what they do. We are also exploring how we can use it to inform management of Scottish Crown Estate land.
- Worked closely with the Tenant Farming Commissioner on promoting and implementing initiatives such as the amnesty on tenants' improvements
- Improved how we communicate with agricultural tenants based on the findings of independent research, and continued our ongoing engagement with tenants through site visits and liaison with Scottish Tenant Farmers' Association and the NFU Scotland (including their Tenants' Working Group) as well as other channels.
- Continued our support for our river salmon fishing angling tenants on category 3 rivers by granting a 25% rent reduction for the 2018 season to help clubs invest in activities that support habitat management and / or recruit members. This affects 34 out of our 140 fishing tenancies spanning 17 different rivers in Scotland
- Worked with telecom operators and agricultural tenants on a challenging timetable to agree siting of masts on farms at our Glenlivet Estate to facilitate completion of emergency service network.

Commented [BE10]: Pull out box

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

Corporate Plan KPI/s: 1, 18, 36, 37, 40, 42, 43, 46, 50, 51

7. Coastal

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

Commented [BE11]: Pull out box

Business Plan action no: 3, 15, 18

Corporate Plan KPIs: 56, 58

8. Energy & Infrastructure

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

Business Plan action no: 26, 28, 29

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

Commented [BE12]: Pull out box

9. Aquaculture

- Continued to explore a means for successful wild and farmed fish interactions management with a commitment of £25,000 each year for three years (2017-18-2019-20) for a wild fish lice monitoring protocol pilot led by Fisheries Management Scotland
- Partial closed containment feasibility investigation for finfish now operating and we are participating on steering group. Closed containment has the potential to shorten open sea periods, addressing key operator risks by reducing exposure to pathogens, improving overall environmental sustainability and strengthening the sector's social license to operate.
- Hosted the Seagas Forum in May 2017, bringing together academia and industry to explore progress in biogas R&D
- Supported Norfab's mechanised handling design project for harvested seaweed which aims to identify production line economics to inform how cultivation logistics can be commercialised and scaled-up.
- Achieved strong results in the independent tenant satisfaction survey with overall performance rated at 8.2 out of 10 by shellfish tenants and 7.2 by finfish tenants. Assessing how helpful our five-yearly rent review are for giving tenants certainty, shellfish tenants rated the reviews as helpful, scoring 7.3 (on a scale of 1 (a little helpful) to 10 (very helpful)) and finfish tenants rated them 6.6.¹⁵

Business plan action no: 30, 31, 32

Corporate Plan KPIs: 30, 33, 34, 32

Commented [BE13]: Pull out box

¹⁴ Marine Scotland is conducting a strategic planning exercise which will result in a Sectoral Plan for Offshore Wind. Crown Estate Scotland will lease only within areas identified as suitable within that Plan.

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

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

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

Business plan action no: n/a

Corporate Plan KPIs: 59

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

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

Business Plan action no	Action	Measure	Status	Notes
7	Ensure that staff are fully engaged; retain and enhance expertise	Unplanned turnover rate no more than 10%		Unplanned turnover totalled 13% (four members of staff); measures being implemented in 2018-19 to manage turnover during an ongoing period of change (see section X)
13	Long-term investment strategy devised	Investment strategy approved by Board; started to implement		Draft currently in place pending Strategic Environmental Assessment (expected December 2018)
14	Ensure that appropriate processes are in place to capture data and financials, apportioned by local authority, to be able to provide information to Scottish Government as required	Provision of financial information to enable Scottish Government to apportion net revenue by local authority		Processes in place; timescale for providing information changed (in consultation with Scottish Government); on track for completion late 2018-19

Commented [BE14]: Pull out box

23	Optimise net rentals from property in George St, Edinburgh	Remaining vacant office let at market value		Work ongoing to secure tenant and to minimise vacancies in other units following lease expiry
----	--	---	--	---

Case study 4 Helping sustainably harness the power of the seas

Scotland is better placed than most countries to unplug the huge potential of offshore renewables.

As manager of leasing Scotland's seabed, we want to do all we can realise this potential.

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

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

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

John Robertson, Energy & Infrastructure Senior Manager at Crown Estate Scotland, said, "This is an important step forward in understanding the potential impacts of offshore wind farms on the marine environment. Scotland's seas hold great potential for clean energy – this study will help ensure we realise that potential based on scientific research and long-term sustainability."

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

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

Section 2: Performance Analysis

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

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

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

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

Table X: Priority 2017-20 KPIs and targets

Strategic objective	KPI	March 2020 target	How performance is tracked	Progress as at 31/03/18
1. Contribute to Scotland's economic, social and environmental well-being	Number of pilot projects started	Three pilot projects started	Updates to Board on delivery of published scheme and timetable	Pilots scheme developed and consulted on
2. Grow the revenue and enhance the capital value of the estate	Revenue generated (2017-18 baseline) Total capital property value	Revenue increase £10m working capital fund established (target set out in draft Investment Strategy)	Financial performance reporting framework including quarterly reporting to Board Weekly transactions pipeline review	£16.4m total turnover (against budget of £14.7m) £6.9m capital fund (before transfers from revenue) established £324.6m total property value
3. Develop local-decision-making success, with a particular focus on communities and coastal local authorities	Tenant satisfaction levels Key partners' satisfaction levels including local authorities	Tenant satisfaction levels above 75% and key coastal local authorities' / partners' satisfaction levels above 70%	Independent tenant and stakeholder surveys	Tenants surveyed 2017-18 indicated satisfaction above 70% Stakeholders surveyed 2017-18 rated Crown Estate Scotland 7.2 (out of 10) on overall performance

4. Build confidence and trust in the organisation	Tenant satisfaction levels Key partners' satisfaction levels including local authorities	Tenant satisfaction levels above 75% and key coastal local authorities' / partners' satisfaction levels above 70%	Independent tenant and stakeholder surveys	Tenants surveyed 2017-18 indicated satisfaction above 70% Stakeholders surveyed 2017-18 rated Crown Estate Scotland 7.3 (out of 10) on transparency
5. Develop and deploy our people's expertise to deliver success	Staff engagement levels Staff retention levels Education and knowledge transfer	Min 75% good-high engagement Max 10% unplanned turnover Evidence of sharing of knowledge in key sectors	Annual staff survey Quarterly reporting on staff turnover Tenant and stakeholder surveys	13% turnover in 2017-18 – action to address this is covered in section 2.3.1

2.1 Uncertainties that may impact performance

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

The approach to risk management that has been adopted is set out in **ppX-X and ppX-X** and reflects the guidance published by the Scottish Government.

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

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

We also want to work with tenants to formulate a rural estate strategy and to gauge views on how we can continue to provide excellent tenant service while taking a responsible and measured approach to managing the assets, including meeting our capital obligations across the 200+ tenancy agreements. In 2018-19 we will carry out a conditions survey of the occupied commercial, residential and agricultural units on the four rural estates to ascertain the scale of works required by Crown Estate Scotland

as landlord and by tenants, in line with their tenancy agreements. This work will also be important in informing longer-term investment plans - but may well raise significant challenges for greater capital generation and deployment.

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

2.1.1 Overview of risk management policy

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

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

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

We have embedded risk management across the organisation by:

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

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

Crown Estate Scotland manages several different types of risk. Risk associated with specific parts of the business is covered in section XX and there is further information on our approach in section XXX. An extract from the strategic risk register is as follows:

¹⁶ More on risk management and the work of the Audit & Risk Committee is on ppX-X.

Table X: extract from risk register

Category of risk	Description	Impact	Mitigation
Health & Safety	Serious incident involving tenant, staff member, contractor or member of the public	Loss of life. Permanent disablement. Major pollution incident.	Develop, implement and monitor comprehensive H&S policies, processes, training and reporting. Ensure liabilities for estate activities are transferred where possible. Robust audit procedures. Monitor changes in legislation and case law and action as appropriate.
Operational	Failure of tenants to decommission marine infrastructure	Liabilities increase; loss of value in marine assets	Ensure all agreements transfer responsibility for decommissioning to tenant. Carry out appropriate covenant checks for new agreements. Review and comment on decommissioning plans from Marine Scotland for renewables infrastructure. If possible, take legal action to recover costs incurred in decommissioning in the event of a tenant default. Enter into Memorandum of Understanding (MoU) with Scottish Govt for decommissioning of renewables infrastructure. Enter into MoU with UK Government (BEIS) for decommissioning of O&G pipelines within 12 nautical miles. Enter into MoU with UK Government for liabilities

			associated with CO2 injection and storage infrastructure.
Staff	High turnover	Negative impact on team and overall performance	Develop and implement a People Strategy Annual staff survey with action plans consequent to feedback
Systems / IT	Failure of core IT systems due to cyber attack	Reputational damage and loss of key business information; recovery costs	Maintain Cyber Essentials certification (confirms that we have the infrastructure and software applications in place for the most common internet-based threats to cyber security). Member of the Cybersecurity Information Sharing Partnership (CISP) – provides notification of cyber related matters and early warning of risks to security. IT support partners provide staff training.

2.2 Overview of financial performance

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

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

Commented [BE15]: Box out

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

¹⁷ The legislation which created Crown Estate Scotland (Interim Management) (see 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 received to fund short-term capital cashflow requirements. These are to be repaid as soon as practical and are not to be outstanding over a financial year end without the consent of Scottish Government.

Cross-subsidy

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

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

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

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

Market conditions

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

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

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

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

In **Table XX** we then detail key factors related to gross revenue and explanation of changes in valuation. While comparison with the valuation on transfer of the portfolio (which totalled £275.7m) is valid, there is no existing separate baseline for revenue comparison. We have therefore compared against 2017-18 budgeted targets for this year's reporting purposes.

2.2.1 2017-18 revenue and valuation

Table X: summary of revenue account (breakdown by asset available on pXX)

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

Gross revenue by operating division £m

Rural 3.5
Coastal 3.3
Marine (Energy & Infrastructure) 4.1
Marine (Aquaculture) 4.6
Urban 0.9

Property valuation by asset £m

Rural 123.9
Coastal 32.5
Marine (energy & infrastructure) 124.5
Marine (aquaculture) 27
Urban 16.7

Commented [BE16]: Pie charts

¹⁸ Direct costs include maintenance, repairs, managing agents and other costs related to the land and property for which we are responsible.
¹⁹ Indirect costs relate to staff (most staff costs are funded from the revenue account, some come for the capital account), operating our two offices, a range of systems, insurance, governance and some professional support.

Table X: 2017-18 gross revenue and property valuation

	Gross revenue (budget) £m	Notes	31 March 2018 valuation £m (% change on transfer valuation)	1 April 2017	Notes on change since 1 April 2017
Rural (agriculture, forestry, minerals and naturally-occurring gold & silver)	3.5 (3.4)	Covering agricultural, forestry, commercial, residential and minerals	123.9 (+0.1%)	122.8	Sales of residential units and one agricultural unit had little impact on overall value, helped by improved rents in other properties. Forestry has increased value, reflecting market trends and the sector's ability to attract investment. Minerals value fell slightly following expiry of some leases.
Coastal	3.3 (3.3)	Revenue generated by the activities managed as part of our Coastal portfolio (includes ports & harbours, moorings, pontoons, dredging and outfalls)	32.5 (+10.5%)	29.4	The increase in capital value is due to the completion of new agreements in 2017/18 and increased confidence in the marina market. The portfolio is characterised by a high volume of low value dealings, with a small number of high value dealings in the ports and oil & gas sectors.
Marine (Energy & Infrastructure)	4.1 (3.8)	Energy revenue is linked to energy output. Some projects started operating slightly earlier than expected while other	124.5 (+46.8%)	84.8	Increase in value driven by Beatrice offshore wind farm entering its construction phase and Moray East project

		projects generated slightly more energy than anticipated. Infrastructure revenue arises from cable & pipeline activities on the seabed.			securing a Contract for Difference. It is also partly due to the resolution of the legal challenges to the planning consents of the Forth & Tay offshore wind projects. With the status of the planning consents now clear, those agreements have increased in value
Marine (Aquaculture)	4.6 (3.3)	Reflects the implementation of the recent five-yearly rent review for finfish (which resulted in a 22% increase of fees for farmed salmon from 22.5p/kg to 27.5p/kg gutted weight) ²⁰ and higher than anticipated salmon production figures. 2018-19 may therefore see finfish income drop. Aquaculture income is impacted by fish health management year-to-year, market demands and global trends - and potentially trading tariffs in the longer-term.	27.0 (+13.9%)	23.7	Value increase largely reflects the increase in finfish revenue as a result of the five-yearly rent review
Urban	0.9 (0.9)	Our urban property consists of retail and office spaces at 39-40 George St, Edinburgh. It provides reliable income stream	16.7 (+11.3%)	15.0	Increase reflects market sentiment, demand, and the calibre of the property and location.

²⁰ A 10% discount is applied to finfish operators and shellfish growers in the Outer Isles (Outer Hebrides, Orkney, Shetland) to reflect their higher costs.

		with relatively low management costs		
Total	16.4 (14.7)		324.6 (+17.7%)	

2.2.2 Best Value and value for money

The Board has corporate responsibility for promoting the efficient and effective use of resources and staff in accordance with the principles of Best Value. The Chief Executive has a duty to secure Best Value through continuous improvement in performance and having regard to economy, efficiency and effectiveness (value for money), as well as equal opportunities. Further detail is in our Framework Document.

2.2.3 Forward-look

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

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

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

A Governance Statement setting out our internal control structure and how we manage resources is on ppX-X.

Case study 5 Supporting nationally important infrastructure

Construction of Aberdeen Harbour Board's £350 million development of additional facilities in Nigg Bay, to the south of the existing harbour, is now well progressed, entering its second year. The development, due to be completed in 2020, will include 1,400m of new quay, with a water depth of up to 10.5m. It will also create an additional 125,000sqm of lay-down area, making it the largest port in Scotland in terms of berthage.

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

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

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

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

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

2.3 Non-financial information

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

2.3.1 Our people

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

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

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

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

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

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

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

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

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

We will ensure that we retain our Living Wage accreditation.

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

2.3.2 Health & Safety

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

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

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

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

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

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

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

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

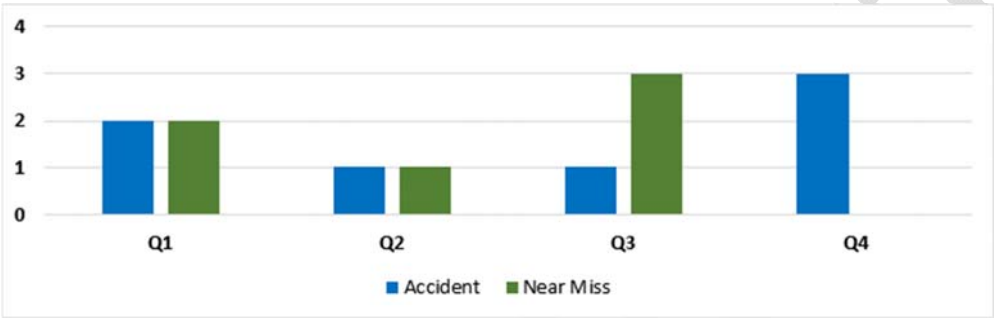
Two staff incidents related to striking a phone line with a digger bucket. Neither resulted in any injuries but there was inconvenience to those affected. Action to prevent this occurring again includes upgrading the detection equipment and providing further staff training to staff.

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

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

In addition to being able to show compliance with the regulations, the risk (likelihood and consequences of an accident occurring) has also been reduced as is the risk of being in breach of legislation.

Chart X: Staff accidents & near misses in 2017-18



2.3.3 Public Interest Reporting

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

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

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

Table X: FOISA and EIRs in 2017-18

	2017-18
Requests for information received	35

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

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

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

Appeals

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

Cases appealed to the Scottish Information Commissioner and Decision Notices Issued

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

Training

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

Complaints

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

Anti-bribery training will be rolled out to staff in 2018-19.

2.3.4 Sustainability

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

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

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

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

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

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

Environment Assessment (Scotland) Act 2005

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

Office operations

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

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

Office	Recycled (kg)	Landfill (kg)
Edinburgh	2489	6420
Glenlivet	174	90

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

Section 3: Accountability Report

Corporate Governance Report

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 of Board)
Dr Michael Foxley
Andrew Macdonald
Robert Mackenzie (Chair of Audit & Risk Committee)
Richard Morris
Hugh Raven
Alister Steele MBE (Chair of Investment Committee)

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 [insert link](#) 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 and the Board signed the Scottish Government's Partnership for Change pledge to commit to gender balance on the board by 2020.

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

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

3.2 Statement of Accounting Officer's Responsibilities

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

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

3.3 Governance Statement

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

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

3.3.1 Governance Framework

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

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

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

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

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

3.3.2 Audit & Risk Committee

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

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

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

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

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

We also operate an Investment Committee, chaired by Alister Steele with Michael Foxley and Hugh Raven as the other non-executive members. This Committee was established by the Board to provide, propose and agree with the Board investment objectives and an investment strategy, to consider and make recommendations to Board regarding proposed investment transactions which require Board approval, and to have oversight of capital investment and the valuation of assets.

The Committee's focus during 2017-18 was working with the Executive Team to develop the draft Investment Strategy.

3.3.3 Board and Committee performance

Formal annual evaluation processes are in place for all Board members. The Chair's evaluation will be conducted by the Director of Marine Scotland. Induction and training is provided for non-executive Board members and they are encouraged to participate in training offered by the Scottish Public Bodies Unit.

3.3.4 Compliance

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

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

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

[\[insert link to web page here\]](#)

3.3.5 Risk and Internal Control framework

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

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

3.3.6 Approach to risk management

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

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

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

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

3.3.7 Internal Audit

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

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

3.3.8 External Audit

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

3.3.9 Data losses

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

3.3.10 Public Services Reform (Scotland) Act 2010

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

3.3.11 Conclusion

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

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

 **2018**

Crown Estate Scotland (Interim Management)

(hereinafter referred to as Crown Estate Scotland)

Annual Report and Accounts

31 March 2018

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.

Laid before the Scottish Parliament by Scottish Ministers under Section 22(5) of the Public Finance and Accountability (Scotland) Act 2000.

Remuneration and Staff Report

Remuneration Policy

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

Service Contracts

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

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

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

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

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

Remuneration and pension benefits of the Chief Executive

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

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

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

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

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

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

Salary

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

Bonuses

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

Benefits in kind

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

Exit packages

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

Cash Equivalent Transfer Value (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

Pension benefits are provided through Civil Service Pensions. Further details can be found at: <http://www.civilservice.gov.uk/pensions>

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

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

Fair Pay Disclosure (subject to audit opinion)

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

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

Staff Report

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

Staff Numbers and Gender Composition

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

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

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

Staff Costs (*subject to audit opinion*)

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

Sickness Absence Data

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

Staff Policies

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

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

Our equality and diversity policy states our commitment to:

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

Simon Hodge

Chief Executive and Accountable Officer
Crown Estate Scotland (Interim Management)
Date:

Parliamentary Accountability and Audit Report

Regularity of Expenditure

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

Losses and Special Payments

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

Fees and Charges

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

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

Remote Contingent Liabilities

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

Simon Hodge

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

Date:

Independent auditor's report to the Accountable Officer of Crown Estate Scotland (Interim Management), the Auditor General for Scotland and the Scottish Parliament

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

Report on the audit of the financial statements

Opinion on financial statements

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

In our opinion the accompanying financial statements:

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

Basis of opinion

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

Conclusions relating to going concern basis of accounting

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

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

Responsibilities of the Accountable Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

Other information in the annual report and accounts

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

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

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Crown

Estate Act 1961 (as amended).

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Joanne Brown, for and on behalf of Grant Thornton LLP

110 Queen Street,

Level 8

Glasgow

G1 3BX

Statements of comprehensive income

Revenue account

	Note	Year ended 31 March 2018 £m
Revenue	6	16.4
Costs	7	(5.8)
Operating profit		10.6
Depreciation of tangible fixed assets	18	(0.2)
Net operating profit before capital transfer agreements and Statutory transfers		10.4
Recovery of capital expenditure under the Crown Estate Act 1961 and by capital transfer agreements	10	(1.3)
Statutory transfers	13	(0.1)
Net consolidated revenue account profit		9.0
Statement of comprehensive income of the revenue account		
Net revenue account profit - distributable to the Scottish Government Consolidated Fund		9.0
Total comprehensive revenue account profit		9.0

Capital account

	Note	Year ended 31 March 2018 £m
Revenue	6	-
Charge from revenue for salary costs	9	(0.7)
Net revaluation gains on investment property (including profit/(loss) on disposal)	11	54.1
Capital profit before capital transfer agreements and Statutory Transfers		53.4
Recovery of capital expenditure under the Crown Estate Act 1961 and by capital transfer agreements	10	1.3
Statutory transfers	13	0.1
Net capital account profit		54.8
Statement of comprehensive income of the capital account		
Net capital account profit		54.8
Items that will not be reclassified subsequently to the capital account:		
Deficit on revaluation of owner occupied properties	11	-
Total comprehensive capital account profit		54.8

Statement of financial position

As at 31 March 2018

	Note	As at 31 March 2018 £m
Assets		
Non-current assets		
Investment properties	15	324.6
Owner occupied property	16	-
Plant and equipment	18	0.6
Receivables due after one year	19	10.1
Total non-current assets		335.3
Current Assets		
Inventory		0.2
Trade and other receivables	20	7.8
Cash and cash equivalents	21	10.9
Total current assets		18.9
Total assets		354.2
Liabilities		
Current Liabilities		
Payables - amounts falling due within one year	22	10.0
Total current liabilities		10.0
Payables - amounts falling due after more than one year	22	-
Total liabilities		10.0
Net assets		344.2
Capital and reserves		
Capital reserve		344.2
Revaluation reserve		-
Total capital and reserves		344.2

Simon Hodge
Chief Executive and Accountable Officer
[DATE]

Cash Flow Statement

For the year ended 31 March 2018

	Note	Year ended 31 March 2018 £m
Cash generated from operating activities		
Net operating profit – consolidated revenue account		10.4
(Increase)/decrease in receivables		0.1
Increase/(decrease) in payables		0.3
(Increase)/decrease in provisions		(0.2)
Depreciation and impairment		0.2
Net cash flow from operating activities		10.8
Cash flows from investing activities		
Capital expenditure on investment properties		(2.9)
Proceeds from disposal of investment properties		5.0
Other capital receipts		2.5
Net cash flow from investing activities		4.6
Cash flows from financing activities		
Net cash flow from financing activities		-
Net increase in cash and cash equivalents before Consolidated Fund payment		15.4
Scottish Government Consolidated Fund payment		(4.5)
Increase in cash in the year after Scottish Government Consolidated Fund payment		10.9
Cash and cash equivalents at start of the year		-
Cash and cash equivalents at end of the year	21	10.9

Statement of changes in taxpayers' equity

For the year ended 31 March 2018

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

Notes to the financial statements

1. Basis of preparation

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

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

Impact of the Crown Estate Act 1961 on the financial statements

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

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

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

income to be spread over the lease term. However the impact is not regarded as material.

Treasury agreements

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

Changes in accounting policies in year

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

2. Significant accounting policies

2a. Properties

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

Fair value measurement of investment property

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

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

Investment properties

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

Investment properties under development

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

Owner occupied properties

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

Countryside Rangers' centre on the Glenlivet estate and a work store on the Fochabers estate.

Disposals

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

2b. Inventories

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

2c. Leases

Crown Estate Scotland as lessor – operating leases

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

Crown Estate Scotland as lessee – finance leases

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

2d. Other property, plant and equipment

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

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

Useful lives and estimated residual values are reviewed annually.

2e. Revenue

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

Rental income

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

Royalties

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

Other income

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

2f. Taxation

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

2g Banking

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

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

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

3. Significant judgements, key assumptions and estimates

3a. Trade receivables

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

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

3b. Unsettled rent reviews

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

3c. Operating leases

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

3d. Property valuations

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

4. Changes in accounting policies not yet adopted

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

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

- IFRS 15 Revenue from contracts with customers – effective for the financial year 2018/19.

- IFRS 9 Financial Instruments – effective from the financial year ending 2018/19

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

DRAFT

5. Segmental Analysis

Business segmental analysis

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

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

Capital Account

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

Consolidated Statement of Financial Position

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

6. Revenue

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

7. Costs

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

8. Administrative Expenses

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

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

9. Staff Costs

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

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

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

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

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

12. Financial Instruments

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

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

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

Liquidity risk

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

Fair values

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

13. Statutory Transfers

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

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

14. Scottish Government Consolidated Fund Payment

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

15. Investment Properties

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

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

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

16. Owner occupied property

	£m
Opening fair value	-
Capital expenditure	-
Revaluation	0.04
Closing fair value	0.04

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

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

17. Fair value measurement of properties

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

Valuation process

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

Fair value hierarchy

The following table shows an analysis of the fair values of investment property recognised in the consolidated balance sheet. All are considered as Level 3 in the fair value hierarchy.

Class of property	Fair value 31 March 2018 £m	Predominant valuation technique	Key unobservable Inputs	Range	Principal value
Rural and Coastal portfolio:					
Agricultural	106.7	Comparable/Investment	Proportion of vacant possession Yield	46%-100% 2%-3%	Strutt & Parker
Coastal	32.5	Investment	Yield	5%-18%	Bidwells
Forestry	16.0	Comparable	Land value Timber value	£1,100-£3,250 £200-£4,900	Tim R Kirk
Minerals	1.2	Investment	Yield	5%-25%	Wardell Armstrong
	156.4				
Marine portfolio:					
Renewables – Offshore Wind	100.7	Investment/DCF	Yield Discount rates	4.5%-19% 8.25%-25%	JLL
Renewables – Wave & Tidal	0.3	DCF	Discount rates Attrition rates	10%-27.5% 0-100%	Powis Hughes
Cables & Pipelines	23.5	Investment	Yield	6%-10%	Powis Hughes
Aquaculture	27.0	Investment	Yield	12.52%-17.52%	Savills
	151.5				

Urban portfolio:					
Offices		Investment	ERV	£22-£26psf	JLL
			Yield	6.5%-7.5%	
Retail		Investment	ERV	£200psfZA	JLL
			Yield	4.9%	
	16.7				
Total all portfolios at valuation	324.6				

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

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

Investment Method

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

Discounted cash flow (DCF)

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

Comparable method

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

Wind farms

Each Round 1 and Round 2 wind farm has been valued individually using an 'all risk' yield applied to the minimum and budgeted rents, or the actual output, subject to an end allowance where appropriate. As a cross check, a discounted cash flow of projected revenue streams has been undertaken with appropriate discount rates for differing levels of status in the development programme. Round 3 has been valued on a portfolio basis.

Strategic land

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

Properties being redeveloped

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

Rural and residential properties

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

Sensitivity analysis

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

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

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

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

18. Plant and equipment

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

19. Receivables due after one year

	As at 31 March 2018 £m
Other receivables	10.1

20. Trade and other receivables

	As at 31 March 2018 £m
Trade receivables	5.4
Other receivables	0.1
Prepayments	0.1
Accrued Income	2.2
	7.8

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

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

21. Cash and Cash Equivalents

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

22. Payables

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

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

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

23. Leasing

Operating leases with tenants

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

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

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

Crown Estate Scotland has no obligations under finance leases.

24. Capital Commitments

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

25. Contingent Liabilities

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

Crown Estate Scotland is not subject to any ongoing litigation.

26. Related Party Transactions

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

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

27. Third party deposits

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

28. Events after the Reporting Period

Subsequent to the year-end proceeds totalling £2.2m arose from the sale of 3 rural properties and additional profit receivable from an historic land transaction.

Crown Estate Scotland (Interim Management)

DIRECTION BY THE SCOTTISH MINISTERS

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

1. The statement of accounts for the financial year ended 31 March 2018, and subsequent years shall, subject to schedule 1, comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM), which is in force for the period for which the statement of accounts are prepared.
2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial period, and of the state of affairs as at the end of the financial period of Crown Estate Scotland (Interim Management) in the exercise of its functions.
3. This direction shall be reproduced as an appendix to the accounts.

Signed by the authority of the Scottish Ministers



Dated 4th 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.