

Agenda
Twenty-Fourth Meeting
Crown Estate Scotland Board
By Video Conference Call
24 February 2021
8.30am – 1.00pm

- | | | |
|--|--|--|
| 08:30 | 1. Standing Items
1.1 Welcome and Declarations of Interest
1.2 Approval of Minutes of Meetings held 25 November 2020
1.3 Matters Arising and Action Trackers
+ 1.4 Papers considered out of meeting
+ 1.5 Stakeholder meetings | Attached
Attached
BD(2021)24.1
BD(2021)24.2 |
| 08:45 | 2. Board Committees
* 2.1 Audit & Risk Committee (26 January 2021)
2.2 Investment Committee (16 February 2021) | Attached
Verbal |
| 09:15 | 3. Management Reports
3.1 Chief Executive's Report
3.2 Performance Dashboard
* 3.3 Finance Report (end Q3)
3.4 2021/22 Capital and Revenue Budgets
3.5 Report on tenant amnesty | BD(2021)24.3
BD(2021)24.4
BD(2021)24.5
Verbal
BD(2021)24.6 |
| 10:15 – Break – fifteen minutes | | |
| 10:30 | 4. Decisions and Discussion
* 4.1 ScotWind consultancy support contract | BD(2021)24.8 |
| 11:15 | 4.2 ScotWind option structure review | BD(2021)24.9 |
| 12:00 | 4.3 Aquaculture Review Recommendations | BD(2021)24.7 |
| 12:45 | 5. Any Other Business | |
| | 6. Date of Next Meeting
28 April 2021 (Strategy meeting) | |

*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	Twenty-Fourth Board Meeting	BD(2021)24
Meeting date	24 February 2021	
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 held by video conference call on Wednesday, 24 February 2021		

Present:

Amanda Bryan	Chair
Dr Michael Foxley	
Liz Leonard	
Jean Lindsay	
Andrew MacDonald	
Robert Mackenzie	
Richard Morris	
Alister Steele MBE	

In attendance:

Simon Hodge	Chief Executive
Esther Black	Director of Corporate Operations
Alastair Milloy	Director of Finance & Business Services
Colin Palmer	Director of Marine
Andrew Wells	Director of Property
Helen Howden	Governance Manager (minutes)
Martha Walsh	Shadowing Observer

By invitation:

Anna Morgan	Financial Controller (for Minute items 3.3 and 3.4)
Alex Adrian	Aquaculture Manager (for Minute item 4.3)

1. Standing Items

1.1 Welcome and Apologies

The Chair welcomed everyone to the meeting. The Chair advised that she and the Chief Executive would require to leave the meeting at 12.30pm and that Robert Mackenzie would assume the chair at that point. The order of the agenda would be changed to allow the two ScotWind items to be taken ahead of the Aquaculture review paper.

Members were thanked for having intimated in advance the items which they would like to raise points or ask questions on and were asked to signal to the Chair during the meeting if there were other contributions they wished to make.

1.2 Declarations of Interest

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

1.3 Approval of Minutes of Meeting held on 25 November 2020

Noted that:

- (a) after the draft minutes had been circulated with the agenda and papers for the meeting some typographical errors had been rectified.
- (b) minute item 2.3 Agreed (a) had also been amended to read “the People Committee should continue in operation until 31 March 2022.”.
- (c) Jean Lindsay had raised a question with the Governance Manager as to whether the Board had agreed an action to set targets for asset values in relation to minute item 4.1 Noted (m) and been advised that they had not.

Agreed that:

- (a) the Board would consider whether targets for asset values should be set as part of the process for agreeing the 2021-22 Business Plan.

Action: EB (24/1)

- (b) with the changes noted above made, the minutes of the meeting held on 25 November 2020 were approved.

1.4 Matters Arising and Action Tracker

Noted that:

- (a) the Director of Property had given Board members an update on the transitional arrangements for the implementation of the new managing agent contracts during an information session held on 19 January 2021. The Board agreed that action 20/7 was now superseded and should be closed.

1.5 Papers considered out of meeting (paper BD(2021)24.1)

The Board **noted** the content of the paper.

1.6 Stakeholder meetings (paper BD(2021)24.2)

Noted that:

- (a) Jean Lindsay had attended the Crown Estate Scotland farm tenants meeting.
- (b) the Chair, Chief Executive and Director of Marine had attended a number of meetings with Scottish Government Ministers and officials over the past two weeks and these

would be reported in the Stakeholder meetings paper submitted to the June Board meeting.

2. Board Committees

2.1 Audit & Risk Committee – 26 January 2021

Noted that:

- (a) the Committee had received a finance report for the period to 31 December 2020 and had received a briefing from the Financial Controller on the budget for 2021-24. A draft budget paper had been circulated to the Committee and copied to all Board members. The Committee would meet in early March to review the budget before it was submitted to Board for approval.
- (b) it was unlikely that the unallocated monies being held in the enabler budget to support COVID-19 or green recovery projects would be spent during the current financial year.
- (c) the Committee had been advised that a number of write offs had been made and these had been intimated to the Board following the meeting. As a result of the losses incurred by the failure of a commercial tenant to pay rent at George Street changes had been made to the covenant information required from new tenants which now included advance payments of rent where evidence of previous trading could not be produced.
- (d) the Committee had received an update on procurement activity; a report from the external auditor on the preparations for carrying out the 2020-21 audit; and a positive report from internal audit on payroll management.
- (e) in addition to the regular H&S reporting the Committee had received a detailed incident report following a significant near miss. The Committee were assured that this incident had been handled well and that there had been a thorough investigation with specific actions taken following receipt of the investigator's report.
- (f) a verbal report had been given to the Committee on the Arup consultancy contract and this item had been intimated to the Board and was subject to a paper for consideration later in today's meeting.
- (g) an update on the organisation's response to the cyber-attack suffered by SEPA had been given during the meeting and agreement reached to amend the scope of the internal audit report on IT to include an element of cyber security. Further information on cyber resilience would be submitted to future Committee meetings and an offer of specific Board session on cyber resilience had been made to members.
- (h) an updated risk register had been approved by the Committee and the Board would be asked to approve this in a paper which the Chair had agreed would be sent out of meeting in early March. The Committee Chair advised the Board that register was a live document, actively referred to and used by the business.

Secretary's note: after the Board meeting the risk register was updated by the Executive Team to include a new risk relating to the ScotWind rapid review. The Audit & Risk Committee will be asked

to review this at its meeting on 16 March 2021 and it will be sent to the Board following that meeting.

- (i) in response to a question from Liz Leonard, the Director of Corporate Operations advised that the H&S dashboard presented to quarterly to the Committee was being amended to ensure clarity in sickness absence reporting. She also advised that, as part of the measures to respond to the increased number of staff who said in the staff survey that they had experienced bullying and harassment, workshops had been arranged. These were being facilitated by Brodies WS.
- (j) actions to build on the output of a diversity and inclusion health check carried out by Glasgow Caledonian University were being developed, including a public statement. These would be reported through the People Committee.

Agreed that:

- (a) the members would like to participate in a specific session on cyber-resilience and the Chair would liaise with the Governance Manager to arrange this.

Action: AB/HH (24/2)

2.2 Investment Committee – 16 February 2021

Noted that:

- (a) the Committee had received updates on project progress, including on the Mallaig Learning Centre; the commissioning of an options appraisal for George Street; the appointment of consultants to lead public engagement at Whitehill; and the development of the Montrose Zero4 site. The projects were slightly behind where it had originally been anticipated they would be at this stage, but they were all progressing.
- (b) approval had been given for the sale of site R2 at Ordiquish Road and for an options appraisal to be commissioned for site R4. This site gave Crown Estate Scotland an opportunity to test decision-making based on wider value aspects and opened the discussion on the nature of the organisation's involvement in development.
- (c) a strategic outline business case for a project in Ullapool had been approved. A strong and thorough case had been put forward for this project.
- (d) the Committee had again reviewed the proposals for the three capital challenge funds which had been approved subject to a simplification of the application form. The Committee wanted to avoid the application process creating barriers for applicants and considered that it was for Crown Estate Scotland staff to prepare the necessary business cases. The Board would be asked to approve the launch of the funds in a paper to be sent out of meeting.
- (e) the Committee consider that the Regional Engagement Manager posts are important to the success of the capital challenge funds as they will require long-term partnering with applicants. It was suggested that the business look to bring forward the timescale for recruitment of these roles. Advertising for the post to cover Highlands and Islands would shortly be commenced and adjustments were being made within the property team to

allow for an earlier than anticipated recruitment of the post to cover the North East. There was the potential for these roles to be offered as job-shares.

- (f) the Committee also suggested that there was a need for planning in requirements for outsourced support over the current Corporate Plan period, similar to the workforce planning which had already been completed.
- (g) an update report on the works being undertaken in response to the rural condition survey was received and members would see the results of some of the delays in completing works coming through in the budget proposals for the next financial year.
- (h) the Chief Executive had led a discussion during the Committee meeting on the performance of the investment portfolio and it had been agreed that the focus should be on overall performance of the Scottish Crown Estate rather than the narrower performance of the £70m fund targeted in the Investment Strategy .
- (i) the Commercial Manager had again presented a market update report to the Committee and members were recommended to read it. The report would remain a standing item on the Committee's agenda.

Agreed that:

- (a) members would welcome a strategic discussion on the potential involvement of Crown Estate Scotland in property development. This would be added to the Board forward planner.

Action: HH (24/3)

- (b) the regional engagement manager roles sent a positive message about the organisation and its way of working and there should be strong communication sent out about this, over and above the advertising of the roles.

Action: EB (24/4)

3. Business Management

3.1 Chief Executive's Report (paper BD(2021)24.3)

Noted that:

- (a) staff were continuing to work at a stretch to successfully deliver a number of substantial change projects. The Chief Executive commended the determination and commitment of staff to push forward with successful delivery of corporate objectives despite the continued challenges brought by lockdown.
- (b) the organisation continued to allow staff to work flexibly to accommodate their personal circumstances while working at home. Alister Steele asked if there had been a disproportionate impact on women in the organisation and what steps had been taken to ensure that workload remained manageable. Special paid leave arrangements were in place in accordance with Scottish Government guidance and line managers were recording the amount of paid leave being taken. There has been an impact on delivery however the change management grid being used by the Executive Team allowed pinch

points to be monitored. Some projects had been delayed and individual performance targets adjusted to reflect circumstances.

- (c) consultants had been appointed by Scottish Government to develop guidance on the operation of Part 2 of the Scottish Crown Estate Act 2019 relating to transfer and delegation of management functions. The original timescale for implementation of these provisions was understood to have slipped and that they would not now be brought in to force in April 2021. The consultants have been engaging with various stakeholders as well as members of staff. It was expected that the Board would also have an input into this process although it was not yet certain when that would be.
- (d) in response to a question from Jean Lindsay it was confirmed that the H&S consultant was a member of the H&S Committee. The trade union representative also sat on the committee however was understood not to be there as a H&S representative. The Director of Property would follow this, ensure that the trade union were requested to provide a H&S representative to join the Committee and keep a record of this request.

Action: AW (24/5)

- (e) Jean Lindsay asked for, and was given, confirmation that the stress risk assessments to be carried out would be based on the HSE management standards. The Occupational Health and Wellbeing H&S Policy (HSP11) had been updated to reflect this.
- (f) Jean Lindsay asked for confirmation from the other Board members that they had completed the H&S basic training which was offered online on an annual basis. She asked that they do so in order to demonstrate H&S leadership.
- (g) the procurement of legal services was being undertaken and that the organisation was utilising a Scottish Government framework for this. The procurement strategy was now to use frameworks wherever possible to create efficiencies in the procurement process and evidence value for money.
- (h) preparations were in-hand for participation in COP26 with a range of activity being considered, including partnering with other organisations and undertaking practical action with the third sector, such as a marine clean-up on the River Clyde. Opportunities for staff volunteering were also being identified. Continuing COVID-19 travel restrictions meant that it the conference might have to be delivered on digital platforms. The Corporate Affairs team were looking to maximise the impact of any Crown Estate Scotland activity relating to the conference.
- (i) in response to a question from Richard Morris, the Chief Executive advised that when funding was provided to other bodies to allow them to employ people for specific roles, they were not considered Crown Estate Scotland employees. The output from those roles would be managed through a contract agreement with the other body and the contribution of Crown Estate Scotland would require to be acknowledged. The Chief Executive confirmed that he would consider how best to ensure that the knowledge gained by such post-holders could be captured and retained in Crown Estate Scotland.
- (i) the wayleave agreements to allow broadband to be installed in the office at Quatermile Two were being finalised. The Director of Finance & Business Services was still anticipating that installation, at least of the back-up line, would go ahead in March.

3.2 Performance Dashboard (paper BD(2021)24.4)

Noted that:

- (a) members requested more information on contract management in the organisation and wanted to have oversight of contract value against expenditure.
- (b) members also requested that the reporting of staff numbers now referred to the approved workforce plan rather than to April 2017.

Action: EB (24/6)

- (c) Alister Steele, as chair of Investment Committee, had requested that a report on the options for the Nether Dallachy landfill site be submitted to the May meeting of the Committee as the RAG status for this project was showing as red. This has been added as an action for the Investment Committee.

Agreed that:

- (a) regular information should be provided to the Audit & Risk Committee to allow scrutiny of contract management; this should include tracking contract expenditure.

Action: AM (24/7)

The Financial Controller was welcomed to the meeting.

3.3 Finance Report (paper BD(2021)24.5)

Noted that:

- (a) the full year forecast included a significant lease payment receipt however payment of this was now delayed and it was included in the budget for 2021-22. As the current budget had not been reforecast since new of the delay the income was still showing in the 2020/21 budget.
- (b) internally all the option to tax work had been completed however not all had yet been acknowledged by HMRC.
- (c) the organisation did not work to a specific percentage of recoverable and irrecoverable VAT and that the split was calculated by asset when making each return.

3.4 2021-24 Capital and Revenue Budgets

Noted that:

- (a) the draft budget had been circulated electronically to the Audit & Risk Committee and copied to all members of the Board. Members had been requested to provide comments to Robert Mackenzie as chair of the Committee and these would be discussed at a meeting of the Committee which was currently being arranged. All Board members would be invited to attend that meeting. The budget will be sent to Board for final approval.

- (b) the budget had been reshaped to allow presentation against the agreed asset type structure and also by the four Crown Estate Scotland roles. Some figures were not allocated against specific assets and the detail of allocation would emerge during the financial year. It might be that the asset type split will change however it was not expected that the underlying results would change materially.
- (c) direct costs have been allocated based on time spent, for example, if an asset manager estimates that they spend 50% of their time on farms then 50% of the non-specific direct costs have been allocated to farms. Overheads and staff costs of the corporate divisions have been split based on number of assets in an asset type, the income an asset type generates and also the proportion of direct costs associated with that asset type and the roles, in order to allocate those out across the organisation in as fair a way as possible.
- (d) a benefit of this allocation method would be to see what the true cost of the different roles the organisation undertakes are in terms of asset manager, investor, enabler, and co-ordinator. The investor role is seen as being everything which is capitalised, and the only element of revenue associated with that are the overheads associated with that relate to those people who have investor roles. The co-ordinator role is mainly the local management pilots. There are two facets of the enabling costs, one is the joint projects undertaken specifically with Marine Scotland where £700k has already been approved for the next financial year, and there is £800k of internal expenditure budgeted, including the Sustainable Communities Fund. There are also overhead costs for these items.
- (e) for the revenue budget the income is largely fixed and so the enabling budget is the one where there is most flexibility on how this is to be used. As currently presented the budget includes £300k of unallocated funds to be used for joint projects with Marine Scotland which will require to be approved and to meet our Corporate Plan objectives. This amount could either be increased or decreased if the Board directs.
- (f) discussions are on-going in relation to the capitalisation of costs. It is likely that £500k of costs which have previously been considered to be capital will be classified as revenue going forward. These are associated with strategic offshore wind R&D projects being funded and administered on behalf of SOWEC. The classification as revenue rather than capital is because the projects do not relate directly to a specific development pipeline.
- (g) the ScotWind option fees are not included in the capital budget given the current live review of ScotWind option fee structure. Depending on the outcome of the review, and the level of interest in ScotWind, the levels of income could be significantly greater than previously anticipated. In addition, legal advice has been received that these should be treated as revenue. The external auditors would be advised of the position once the discussions on future treatment had conclude. There was also work in hand to look at previous receipts of option fee income and whether accounting action is required.

Secretary's note: with the agreement of Scottish Ministers, Crown Estate Scotland transfers an amount equivalent to 9% of the previous year's gross revenue to the capital account.

- (h) a number of rural sales have been included in the capital rural income budget in line with the Investment Strategy. It should be noted though that these sales are at a very early stage.

- (i) capital expenditure splits into two categories, expenditure on current asset base, such as the condition survey works, and anticipated expenditure on assets which have not yet been acquired. The second category of expenditure has a high degree of uncertainty but is in line with the Investment Strategy.
- (j) staff made the time allocation themselves when they were undertaking the budget setting. This will be reviewed annually rather than quarterly. The allocations made to time spent by external advisors, such as managing agents and lawyers, isn't necessarily known at the start of the year and so the allocation, but not the budget, will change over the course of the year.
- (k) as the Investment Committee had recently approved the Ullapool project, the budget should be updated to include it.
- (l) in terms of presentation members would find it helpful to have costs presented against projects rather than estates.

Agreed that:

- (a) the Governance Manager should circulate the date for the Audit & Risk Committee budget meeting to all members.

Action: HH (24/8)

The Financial Controller was thanked for her contribution and she left the meeting.

3.5 Report on Tenant Amnesty (paper BD(2021)24.6)

Noted that:

- (a) the financial implications would be calculated at the end of the tenancy and it was not possible to quantify those at this point.
- (b) the organisation had worked hard to engage with tenants and that approximately two-thirds had responded. It would be important going forward for good records to continue to be kept on improvements and this was a requirement on the managing agents.

The Board adjourned for a break for fifteen minutes.

4. Decisions and Discussion

4.1 ScotWind Option Structure Review (paper BD(2021)24.9)

Noted that:

- (a) the announcement of the results from The Crown Estate's Round 4 offshore leasing bids had sent shockwaves around the sector. The ten-year options being offered could potentially raise £9bn in fees. ScotWind had been launched with a capped option fee structure, designed to recognise the challenging circumstances for developments in Scottish waters. There was the potential for a maximum receipt of £86m from ScotWind options fees.

- (b) given the scale of the gap it was considered appropriate to undertake a rapid review of the option structure, concluding before 25 March, the start of the pre-election period. Crown Estate Scotland had announced that review on 11 February 2021.
- (c) as the Chair had indicated earlier in the meeting there had been a number of meetings between Crown Estate Scotland and Scottish Government, including at Ministerial level. Agreement had been reached on the terms of reference for the rapid review. The objective of the review was to seek to ensure that option receipts were maximised to reflect fair market value without prejudicing the development of offshore wind in Scottish waters.
- (d) it was understood that the issue was intended to be discussed at a Cabinet meeting of the Scottish Government on 16 March 2021 and the time available for the conclusion of this review was therefore constrained.
- (e) the risks involved in this review were not insubstantial and could be fundamental to the future of the organisation. The E&I team had already been working at a stretch and this was adding additional pressure to them. Any further delay to the leasing would have serious implications for Crown Estate Scotland and the sector as a whole.
- (f) the Board were not being asked to reach a decision at this stage as the review had still to be concluded. The Executive were requesting an indication of whether it would be preferable to make a single recommendation to Ministers or to put forward options to them with one preferred option being identified. A meeting of the Board to consider the output of the review would be arranged for the week commencing 1 March 2021.
- (g) it was recognised that constitutionally, Ministers have the power to issue a Direction to the organisation to adopt a certain option if that was different from the decision of the Board. The Board agreed that there would require to be clear and careful communication of that decision and the reasons for it.
- (h) market intelligence was a key factor in the review and consultants were providing input into the review on the drivers and rationale behind the bidding activity for the Round 4 options. The modelling of ScotWind was intended to ensure delivery of offshore wind and not necessarily to generate maximum upfront receipts at the expense of longer-term viability. There were longer term financial considerations and benefits to be delivered from the developments and focusing on short-term receipts did not ensure that those would be achieved.
- (i) there will be future leasing rounds for the Scottish waters and will be important lessons to learn from ScotWind. Decisions taken now should not constrain future developments and make Scottish waters uncompetitive in the international market.

Agreed that:

- (a) the Board would like to be able to put forward a range of options, with a preferred option informed by the Crown Estate Scotland Corporate Plan, to Ministers.
- (b) if a decision on the current leasing round was to be delayed beyond the election then that would require to be as a result of a specific Ministerial Direction.

4.2 ScotWind Consultancy Support Contract (paper BD(2021)24.8)

Noted that:

- (a) consultants were appointed in December 2019 to provide services relating to the testing and refining the evaluation approach to ScotWind applications and to undertake the evaluation of the applications. To ensure accuracy, two parallel evaluations are planned. At the outset it was expected that Crown Estate Scotland staff undertake one evaluation and external consultants the second. The high number of ScotWind registrations has required a re-evaluation of handling. Not only will this require a greater number of evaluations for the external consultant, but the likely high numbers of applicants meant that Crown Estate Scotland staff will not have the capacity to undertake an in-house evaluation. Because this was not anticipated at the time, a second review was not explicitly included in the original scope of the invitation to tender (ITT). The ITT did highlight some areas of uncertainty in relation to the contract, including the number of applications which were expected to be received and the anticipated duration of the contract.
- (b) following the appointment of the Procurement Manager and clarification on the timeframe for the ScotWind leasing process and a clearer indication of the number of applications likely to be received, the E&I team engaged with the Procurement Manager to review the procurement arrangements. Legal advice has been obtained and a range of options have been risk assessed, including against the likelihood of successful legal challenge; delivery risk for the ScotWind leasing round; cost impact; and reputational risk.
- (c) the recommendation being put to the Board is for the publication of a voluntary ex ante transparency (VEAT) notice for the potential increase in the number of first assessments, setting out the grounds on which the organisation considers that it is entitled to amend the contract. If there is no challenge received following the publication of the VEAT notice, then the contract will be amended but will still only refer to one review. A formal tender process will be undertaken for consultancy support for the second review. This is referred to in the paper as Option 2.2.
- (d) one option which had been considered (Option 3) was to terminate the current contract and to tender for a consultancy contract to deliver both reviews for ScotWind. This option was not being recommended to the Board as it would delay the bid evaluation preparatory work, increase the risk to delivery of ScotWind leasing, and leave the organisation open to action for breach of contract from the current contractor and carry reputational risk.
- (e) ScotWind is vulnerable to delay. To allow developers to carry out survey work in 2022 in time for bidding for the next CfD round, it had been agreed that the review work would be undertaken within six months of the closure of the application window. Introducing a delay, for example by going back out to tender the whole contract, could cause the leasing to be put back by a year and put Scottish projects at risk.
- (f) the decision to appoint consultants to carry out the review rather than employ additional resource in-house had been made for financial and practical reasons, including the costs related to direct employment and uncertainty about the ability to temporarily recruit the large number of experts that would be required.

- (g) Andrew Macdonald asked whether the current contract was exclusive. He commented that if it was not then it changed the view to be taken of Option 3.

Secretary's note: the contract does not contain exclusivity provisions for all assessments, but it is important to the integrity of the process that all bids are assessed by the same party.

- (h) the contract was awarded prior to the appointment of a Procurement Manager and to the adoption of a new procurement policy in Crown Estate Scotland. The award of the contract in December 2019 was based on an estimate of the amount of work required and when that changed, action was taken by the organisation. The Chief Executive acknowledged that there may have been flaws in the original process, which occurred before Crown Estate Scotland adopted the Scottish Procurement Regulations. However there had been a positive and professional approach to the changing circumstances and the actions required to move forward.
- (i) notwithstanding the appointment of a Procurement Manager and the fundamental change in the way procurement was now undertaken in the organisation, the Board wanted an independent investigation commissioned into the circumstances and lessons learned to be identified. This should be overseen by the Audit & Risk Committee.
- (j) a question had been asked in the Scottish Parliament in March 2020 about the value of the contract awarded and the duration. The answer given by the Cabinet Secretary indicated that the value would depend on the number of applications received and that the duration will depend on a number of factors. This answer was the best estimate at that time and the Director of Marine was engaging with the sponsor team in relation to whether any update would be appropriate.
- (k) the Board were not unanimous in their approval of the recommendation in the paper to adopt Option 2.2. Liz Leonard asked that it be noted in the minutes that she had been intending to request that Option 3 be progressed until she had heard the discussion during the meeting, particularly the emphasis on the significant risks of a further delay beyond 2021, and that as a result of that she accepted the recommendation in the paper. Jean Lindsay confirmed that she would also agree the recommended option on the basis of the time constraints. Michael Foxley acknowledged the difficulties involved in the decision and confirmed his support for Option 2.2 as did Robert Mackenzie and the Chair.
- (l) Andrew Macdonald, Richard Morris and Alister Steele confirmed that they did not agree with the recommended option and that they would favour Option 3 being adopted.

Agreed that:

- (a) an independent investigation of the award of the original contract should be commissioned under the oversight of the Audit & Risk Committee. The timing of the investigation should be carefully handled given the pressures on the E&I team.

Action: RMK (24/9)

- (b) on the majority decision, the recommended Option 2.2, should be progressed.

Action: CP (24/10)

- (c) the Director of Marine and Director of Corporate Operations should work together to ensure that the communication of this decision, including the wording of the VEAT notice, were carefully and appropriately handled.

Action: CP/EB (24/11)

At this point Amanda Bryan asked Robert Mackenzie to take over chairing the meeting.

The Aquaculture Manager joined the meeting.

During the discussion on the following item Amanda Bryan, Simon Hodge, Esther Black, Liz Leonard, Jean Lindsay, Andrew Macdonald, Alastair Milloy, Richard Morris, and Andrew Wells all left the meeting. Prior to leaving the meeting Andrew Macdonald advised the Chair that he was supportive of the recommendations in the paper.

4.3 Aquaculture Review Recommendations (paper BD(2021)24.7)

Closed Business - Confidential

Noted that:

- (a) the root and branch review had been instructed to take a full look at the leasing terms for finfish, seaweed, and shellfish. The intention was for the review to make recommendations which, if accepted, would be implemented on 1 January 2022, following consultation with Scottish Government and the industry.
- (b) the review presented some clear recommendations and some options for consideration. The Board were being asked to approve the adoption of the clear recommendations and to delegate to a working group, which would include Board members, agreement on which of the options presented should be pursued.
- (c) the review had reported later than had been anticipated, partly as a result of COVID-19. There might not therefore be sufficient time to allow the working group to review and agree the recommendations and consult with the Scottish Government before the election in May. If a consultation with industry was pushed back until later in the year, then there would be insufficient time to implement the changes on 1 January 2022. There would therefore be a full year delay to implementation.
- (d) members queried whether the recommendations were ambitious enough, particularly in relation to sustainability and the billing cycle.
- (e) the actions which Crown Estate Scotland could take in relation to sustainability were based on its role as landlord, not regulator, and key new requirements of tenants would be a duty to report on their sustainable use of the marine environment, including stewardship of derelict or abandoned sites.

Agreed that:

- (a) a communications and engagement plan would be prepared for engagement with the industry and the implementation of the output of that and the review.

Action: CP/EB (24/12)

- (b) the Board approved the recommendations from the report as set out in the paper and approved the delegation to a working group, which would include Michael Foxley and Robert Mackenzie, the determination of which of the options set out in the paper should be adopted.
- (c) further consideration should be given to the timing of the engagement on the review recommendations with Scottish Government and the industry.

Action: CP (24/13)

Secretary's Note: following the meeting the Chair emailed the Board to indicate that in light of pressures, including COVID-19 and trading challenges following Brexit, that it would be preferable to take more time in relation to the engagement with the Government and the industry, and so postpone implementation until January 2023. All members signalled their approval of this proposal.

5. Any Other Business

5.1 Business Plan 2021/22

Agreed that:

- (a) the Director of Corporate Operations would circulate an update to members on the timetable for the preparation of the business plan for 2021/22.

Action: EB (24/14)

6. Date of Next meeting

28 April 2021 (by video conference call)

Amanda Bryan
Chair, Crown Estate Scotland

Date

Board	Twenty-fourth Meeting	BD(2021)24
Meeting date	24 February 2021	
Paper title	Papers Considered Out of Meeting BD(2021)24.1	
Security classification	Unclassified	
Presented by	Helen Howden	
Author	Helen Howden	
Annexes	None	
Recommendation	The Board is invited to note the content of this paper	
<p style="text-align: center;">The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest</p>		

Background

1. This paper, which is for noting, records a decision made by the Board out of meeting.

Decisions

2. BD(2020)OOM13 – Delegated Authority – update

In March 2020 the Board asked the Audit & Risk Committee to review the operation of the organisation's internal scheme of delegation. The Committee received a report from management at its meeting in October 2020 during which some changes were proposed. These were approved by the Committee and a paper submitted to the Board out of meeting by email on 23 November 2020.

Members of the Board exchanged email correspondence on this. One member did not support the revisions which would have enabled proposals for debts in excess of £150k to go to Scottish Ministers for approval without first having been considered by the Board. It was therefore proposed that this be made consistent with the treatment of claims waived or abandoned.

It was noted that debt reporting formed part of the regular finance reports provided by the Financial Controller to both the Audit & Risk Committee and to the Board. The Audit & Risk Committee would continue to monitor the operation of delegated authority until the Board directed otherwise.

The majority of the Board supported the proposals to revise the scheme of delegation with the amendment to provide that Board approval was required for write offs in excess of £150k.

3. BD(2021) – Land Transaction – alveus Loch Ness

The Board were requested to consent to Crown Estate Scotland moving forward with a proposal to acquire a piece of the bed of Loch Ness from the Queen's Lord Treasurer and Remembrancer in a paper circulated by email on 11 January 2021. The Investment Committee had reviewed the paper and confirmed its support to proceed on the basis that this was an acquisition for nil consideration, with the organisation paying for its own due diligence.

It was noted that the sponsor team considered that the transaction required the approval of Scottish Ministers on the basis that it was novel and / or contentious.

Members confirmed their support for the proposal to move forward.

Board	Twenty-Fourth Meeting	BD(2021)24
Meeting date	24 February 2021	
Paper title	Stakeholder Meetings BD(2021)24.2	
Security classification	Unclassified	
Presented by	Amanda Bryan	
Author	Gemma Reynolds	
Annexes	None	
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. This Paper is to ensure the Board is aware of the meetings with Crown Estate Scotland stakeholders which the Chair, the Chief Executive and members of the Executive Team have held during the period from 14 November 2020 to 12 February 2021.

Meetings and Events attended

2. The Chair and Chief Executive both attended or met:
 - Unconscious bias workshop facilitated by Changing the Chemistry, also attended by other Board members and the Executive Team, on 15 January 2021.
3. The Chair attended or met:
 - Scottish Government Future Board Chair mentoring workshop, on 26 November 2020.
 - Mark Russell, MSP, re Offshore Wind Supply Chain, also attended by Colin Palmer, on 2 December 2020.
 - SCDI Conference, on 7 December 2020.
 - C2W Consulting and One Planet Consulting, consultants appointed by Scottish Government re the provisions for transfer and delegation of management in The Scottish Crown Estate Act 2019, on 15 January 2021.
 - Board recruitment workshop facilitated by CEMVO Scotland, also attended by Esther Black and Helen Howden, on 20 January 2021.
 - Board recruitment workshop facilitated by Changing the Chemistry, also attended by Helen Howden, on 21 January 2021.
 - Getting on Board panel session for Highland Business Women, on 3 February 2021.

4. The Chief Executive attended or met with:
 - Euan Dobson of Scottish Enterprise, re Blue Economy Ports Liaison, also attended by Colin Palmer, on 23 November 2020.
 - Marine Scotland, Scottish Government and Scottish Enterprise, re Scotland's ports and harbours as a driver for the blue economy, also attended by Colin Palmer and Andrew Wells, on 24 November 2020.
 - Environment and Economy Leaders Group, on 25 November 2020.
 - Dan Labbad, CE, The Crown Estate, on 26 November 2020.
 - Economy, Energy, Jobs and Fair Work (EEFW) Committee meeting in relation to BiFab, the offshore wind sector and the Scottish supply chain, on 8 December 2020.
 - Meeting with Scottish Government officials to discuss questions following the EEFW Committee meeting, also attended by Colin Palmer, and John Robertson, on 11 December 2020.
 - Strategy awareness session with PCS, also attended by Esther Black and Carol Anne Knight, on 14 December 2020.
 - Lerwick Port Authority (CEO and CFO), Highlands & Islands Enterprise (Shetland area team leader) and Oil and Gas Authority (Head of Supply Chain) in relation to the Dales Voe ultra deepwater port, also attended by Colin Palmer, Paul Bancks and Tom Mallows, on 16 December 2020.
 - North Ayrshire Council, Scottish Enterprise, Scottish Power, EDF Energy, Skills Development Scotland, Peel Ports, Nuclear Decommissioning Authority, and Ayrshire College in relation to the Hunterston Strategic Development Area, on 1 February 2021.
5. The Director of Corporate Operations attended or met with:
 - David McGuire of Glasgow Caledonian University as part of a SG-funded D&I review.
 - David Pratt and Mike Palmer, Scottish Government, re Transfers and Delegations, also attended by Alastair Milloy and Helen Howden, on 19 November 2020.
 - Elisa Morgan, re human rights leadership in Scotland, on 24 November 2020.
 - Business in the Community, re Net Zero Working Group, on 11 December 2020.
 - Sarah Brown and James Stuart re transfers and delegations, on 11 December 2020.
 - Business in the Community Scotland Advisory Board Meeting, on 16 December 2020.
 - Scottish Government 2021-22 pay policy briefing session, on 29 January 2021.
6. The Director of Finance & Business Services attended or met with:
 - Kevin Kendrick, Operations Director at Morton Fraser, on 2 February 2021.
7. The Director of Marine attended or met with:
 - Mike Palmer, regular catchups across Marine activities on 26 November 2020, 4 December 2020, 25 January 2021 and 5 February 2021.
 - Andy Hogg, Deputy Director Energy Industries SG, regular catchup on 4 December 2020.
 - Declan Burke, BEIS Director Clean Power Strategy & Deployment, regular catchups on 1 December 2020 & 2 February 2021.
 - Dan Finch, Managing Director, introduction to Ocean Winds, 7 December 2020.
 - Huub den Rooijen & Will Apps at The Crown Estate, also attended by John Robertson on 11 December 2020 – first of anticipated regular meetings.

- Blue Economy Ports & Harbours (Marine Scotland and Crown Estate Scotland), also attended by Simon Hodge and Mark McKean, on 14 December 2020.
 - Mike Palmer & Jane Rougvie (Scottish Government Aquaculture), re Aquaculture R&B programme and governance, on 15 December 2020.
 - Luke Warren, Chief Exec Carbon Capture & Storage Association, with John Robertson and Sian Wilson, on 6 January 2021.
 - Offshore Wind Evidence and Change Programme – Programme Steering Group Meeting, on 12 January 2021.
 - Adam Ezzemal, Project Director Inch Cape, on 21 January 2021.
 - Simec Atlantis Energy, introductory meeting new CEO Graham Reid, also attended by Sian Wilson, on 1 February 2021.
 - Introductory meeting Donald Carmichael, new acting Deputy Director SG Aquaculture, on 24 January 2021, with follow up meetings on R&B review also including Mike Palmer and Jane Rougvie (along with Alex Adrian and Anneli Hill from Crown Estate Scotland) on 5 February 2021.
 - Introductory call Sarah Redwood at BEIS, Director Renewable Energy Deployment, on 2 February 2021.
 - ScotWind review calls with Scottish Government representation from Energy unit and Marine Scotland along with Crown Estate Scotland internal team members on 10 February, 11 February and 12 February 2021.
 - Huub den Rooijen, Director Energy, Minerals & Infrastructure at The Crown Estate, 11 Feb 2021.
8. The Director of Property attended or met with:
- Grant Moir, Chief Executive Officer of Cairngorms National Park Authority, on 16 November 2020.
 - Tom Campbell, Executive Chair of NC500 Ltd, on 17 November 2020.
 - Highlands and Islands Enterprise and The Highland Council in relation to the Fort William Waterfront, also attended by Tom Mallows on 17 November 2020.
 - The Highland Council, also attended by Tom Mallows on 18 November 2020.
 - Scottish Forestry and Scottish Government re Farms, Tenants and Forestry, on 19 November 2020.
 - Green Action Trust, on 27 November 2020.
 - Ian Wall, Chair of the SDCI Board, on 30 November 2020.
 - Savills, Bidwells, and representatives from Scottish Land and Estates, Glenavon Estate, Balmoral Castle and Invercauld Estate, re ECMP Estates, on 2 December 2020.
 - Scottish Enterprise in relation to a hotel opportunity for Montrose Zero 4 opportunity, also attended by Caroline Bell and Andy Riley on 11 December 2020.
 - Scottish Land & Estates, re Farm Tenants and Forestry, on 21 December 2020.
 - Dumfries & Galloway Council, Solway Firth Partnership and South of Scotland Enterprise in relation to the Borderlands Inclusive Growth Deal – Solway Marine Pilot, also attended by Paul Bancks and Tom Mallows on 22 January 2021.
 - Cairngorm Nature Strategy Group, on 28 January 2021.

Board	Twenty-fourth Board Meeting	BD(2021)24
Meeting date	24 February 2021	
Paper title	Chief Executive's Report BD(2021)24.3	
Security classification	Unclassified	
Presented by	Simon Hodge	
Author	Renée Lefrançois	
Annexes	None	
Recommendation	The Board is invited to note this Report.	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

1. Overview

Good progress with delivery against this year's business plan is being made with most actions on track for completion by end of the year. Where COVID-19 has impacted delivery, it has been noted in our action tracker.

Several change projects continue apace, and Executive Team are tracking impact across different teams and avoiding pinch points where possible. Particular pressures at this time are managing agent transition with associated in-housing of property management systems as well as ScotWind rapid review of option structure following announcement of The Crown Estate Round 4 auction results.

Ben McPherson MSP was appointed Minister for Rural Affairs and the Natural Environment in December 2020, replacing Mairi Gougeon. We are liaising with Scottish Government to secure a meeting with him.

Scottish Government has contracted consultants to develop a process for transfer and delegation of the management of Scottish Crown Estate assets (prior to Part 2 of The Scottish Crown Estate Act 2019 coming into force). The consultants have met with several colleagues including the Chair and Chief Executive as part of their stakeholder engagement to inform process development. Consideration is being given to how to ensure the full Board have a chance to discuss and consider this work.

The whole team is currently working at full stretch on delivery and change projects, alongside the pressures of lockdown and, for some, the challenges of childcare and home schooling. We can all be immensely proud of the commitment and determination of the team in the face of challenging circumstances.

2. Meetings/engagement

A separate list of the engagement and meetings has been submitted to the Board (BD(2021)24.2).

3. Health & Safety

As reported to Board in November we have presented a comprehensive report on the significant near miss at Fodderletter (when a digger struck an underground cable) to the Audit & Risk Committee. The report included the actions we have taken in response to strengthen our procedures. The Committee suggested that the maintenance team undertake scenario training, and this is being sourced.

RSM have undertaken an internal audit on our Health & Safety Policy Implementation and their report will be submitted to the March meeting of the Audit & Risk Committee. The internal Health and Safety Committee now own a Health & Safety risk register and will provide reports to the Executive Team on a quarterly basis.

We are continuing to work on plans to open the new office at Quatermile Two as and when Scottish Government restrictions permit. Part of that work is to undertake risk assessments and to prepare a Health & Safety manual for the office.

As staff continue to work at home, we are asking that they carry out refresher training on Display Screen Equipment and Health & Safety Basics using our online training platform. We also continue to issue, at all-staff meetings, regular reminders that any accidents or near misses are to be reported.

Work is under way to include an organisational stress risk assessment in our policy covering occupational health and wellbeing.

4. Risk Management

The Audit and Risk Committee approved the adoption of an updated version of the risk register which will be presented to the Board out of meeting in a separate paper.

5. COVID-19 Impacts

Financial: 2020-21 Q3 results and 2021-22 budget are covered in separate papers. After putting a hold on payments of net revenue, the first payment to Scottish Consolidated Fund for 2020-21 net revenues was made on 12 February 2021 and the second one is expected to be made before the end March 2021.

Sustainability: no immediate concerns regarding business sustainability.

Legal: n/a

Risk: Health & Safety risk assessments are being carried out as required.

People: Closure of schools and nurseries as part of the lockdown introduced on 26 December 2020 has again restricted staff capacity – largely in Corporate Operations and Finance & Business Services – and contributed to the on-going COVID-19 fatigue being felt across the organisation. This capacity

restriction will ease slightly if, as expected, younger children can return to childcare from 22 February 2021.

Paid leave for caring responsibilities continues to be logged and collated.

We are continuing to offer support through our Wellbeing Matters programme and are actively managing workloads and delivery targets to try to avoid placing additional stress on individuals. We continue to roll-out various events and opportunities for staff to connect with each other informally.

Reputation: Focus is on positioning Crown Estate Scotland as playing a key role in the green recovery with appropriate messaging on this in communications and engagement related to, for example, various work packages, the Sustainable Communities Fund, and ScotWind.

Our 2020 MSP survey shows awareness is up to 64% (from 55% in 2019), net favourability is at 42% (cf. 45%) and unfavorability is at 3%, an all-time low since surveys started in 2012. A fuller summary of results is available.

6. IT

The server migration has now been completed with all servers now located in Azure (a cloud service). All hardware in Bell's Brae has been decommissioned and either moved to Quartermile Two or recycled.

Cybersecurity work continues, with actions prioritised against the Scottish Public Sector Cyber Resilience Framework. This provides the basis for an action plan and budget provisions for continuous improvement of Crown Estate Scotland cyber resilience (such as a System Information Event Management System, Intrusion Detection System, network penetration testing and web filtering solutions for VPN users). A Board session on cyber resilience can be arranged if desired.

The Property Management System project continues with the Propman system being set up in the Crown Estate Scotland online server and populated with the Bidwells database who have now been using the system live since 14 December 2020. The other main phase is the mapping of the Savills data which is making good progress. The intention is to have Savills perform a full month's parallel run on the system in March.

Quartermile Two internet connections have been delayed due to ongoing communications issues between the landlord, BT Openreach and Virgin Media as to what is required in terms of wayleave (BT Openreach were insisting that their current wayleave for the building would suffice but the landlord wanted a new wayleave for both lines). We now have agreement from all parties on moving forward with the new wayleaves. We had a commitment for the lines to be installed by 31 December 2020 which has been missed on both lines due to the wayleave requirement. The Virgin Media wayleave has now been agreed and is out for signature. Both installs are technically very simple and once wayleave is in place the install work for each line is less than a day's work and we are pushing to agree install dates as soon as possible.

7. Legal Services Procurement

Following consultation with teams across the business, it was agreed that the bulk of our legal services requirements (90-95%) should be subject to further competition using Lot 6 of the Scottish Government framework. The further competition for these services was issued to all 6 service

providers from this Lot during December 2020. Following interviews in mid-February we expect to have a recommendation to award before the end of February. It is intended that the provider will be in place for 1 April 2021 allowing for a phased mobilisation and transition if required.

8. People

Good progress is being made in implementing the workforce plan. Our new Assistant Management Accountant (Rhyan Haider) and Built Development Manager (Jamie MacFarlane) started in recent weeks, and we expect to shortly confirm three more appointments.

Fiona Haywood returns from maternity leave in early March, Carol Anne Knight finishes her full-time contract in late March and Renée Lefrançois goes on maternity leave in April.

We are engaging with PCS on the new staff contract. An Equality Impact Assessment (EQIA) has been conducted. A briefing for staff will take place in March. The People Committee will be kept updated.

Other activity includes follow-up sessions with colleagues on the staff survey, following anti-bullying training scheduled for late February and early March.

We recently delivered refresher training on the new performance management system and will evaluate the new performance management approach in early 2021-22.

A new employee forum is being established with representatives from across the business, plus PCS. Executive Team are reviewing ToRs and we aim to have the forum up and running in April.

The 2021-22 Public Sector Pay Policy has been published [here](#). We await a pay claim from PCS before negotiating the 2021-22 Crown Estate Scotland pay award. In addition, we will be implementing the pay progression arrangements as defined in the Crown Estate Scotland pay and conditions arrangements.

9. Less than Market Value

In 2020 we published our Less than Market Value (LMV) policy (<https://www.crownestatescotland.com/maps-and-publications/download/483>) and guidance (<https://www.crownestatescotland.com/maps-and-publications/download/510>) to provide clarity around how we will process and assess requests.

We invited comment on the policy and have raised awareness through various channels but have not yet received any formal feedback.

Regarding LMV requests, there have been various informal discussions with, for example, an offshore wind farm and various port authorities. As at end January 2021, we understand two formal LMV requests are being prepared, both by BT. These are:

- BT R100 broadband roll-out (expected this due to existing agreement for the H&I broadband group of island cables for the heavily grant-funded projects), and
- BT SCOT-NI 3 and 4 telecoms cables.

The LMV policy is due to be reviewed in early 2021. Given that we have yet to work through a formal request, we propose postponing the review until at least one application has gone through the full process. Based on current information, we think this will be autumn 2021.

10. Corporate Affairs & Policy

Following approval of the communications and engagement strategy in December 2020, we are refreshing the main Crown Estate Scotland website and our brand guidelines and preparing an action plan.

The 2021-22 Business Plan and 2020-21 Annual Report are also in preparation, and Energy & Infrastructure tenants will soon receive their regular tenant satisfaction survey.

Activity planned in relation to COP26 includes a partnership with Scottish Renewables on a community roadshow and a potential litter 'COP clean-up of the Clyde' with a third sector partner. We are also investigating staff volunteering opportunities. The focus is on partnering with credible parties on tangible 'on the ground' activity and using that work to highlight our role in the green recovery.

Value Project – Asset Profiles

- Work is underway to finalise the profiles and ensure they are relevant for external stakeholders. As part of this process, input has been sought from Marine Scotland.
- They will be published on our website in April.
- A Communications Plan is being prepared to support publication.

Sustainable Communities Fund

- Applications for the Environment Grants have been assessed and we expect to notify successful applicants in late February. The funds will support a range of biodiversity projects and publicity is being planned.
- Applications for the Community Capacity grants have been submitted to Foundation Scotland and an external panel will assess these in late March.
- Year 2 of the fund will be launched in Summer 2021 following a 'lessons learned' exercise on Year 1. The team would welcome engagement with interested Board members on this.

11. Energy and Infrastructure

Crown Estate Scotland announced a rapid review of the ScotWind option structure following unprecedented results from The Crown Estate Round 4 auction process. The level of bidding has rocked the whole renewables sector and has required a delay in ScotWind to understand the implications for Scotland. This review was initiated by Crown Estate Scotland but is strongly supported by Scottish Ministers. The intention is to conclude the review by 24 March. This is considered further in a separate paper.

There has been significant engagement with Scottish Government as well as at Ministerial level in November and December in relation to the Economy, Energy and Fair Work Committee inquiry considering BiFab, the offshore wind sector and Scottish supply chain.

The Supply Chain Development Strategy (SCDS) in particular was put under further scrutiny, however, following significant engagement and focus from the team, the Post Adoption Addendum

(PAA) documentation (reflecting final ScotWind leasing arrangement including SCDS and amendments following Sectoral Marine Plan publication) was published as scheduled on 15 January.

A focus of the team is now on dealing with clarification queries to the PAA and preparing for the assessment phase of ScotWind. An aspect of this is that the agreement we have with Arup for assessment preparation and support is anticipated to be higher than has been communicated both in public notifications and in response to a parliamentary question in March 2020. The team are therefore taking legal advice and investigating the right means to address this with regards to managing the risk of challenge whilst minimising impact on ScotWind.

The potential investment opportunity at Nigg and the review of our approach to ScotWind options fees are covered under separate agenda items.

£220k of the £300k Scottish Offshore Wind Energy Council (SOWEC) fund has now been committed with 7 projects awarded ranging from developing a supply chain roadmap for offshore wind in Scotland to Repurposing Oil and Gas Infrastructure for Production of Hydrogen.

Carbon capture and storage (CCS) remains a significant focus for Crown Estate Scotland, in particular refinement of our option agreement for Acorn which is considered a key CCS project for the UK. There are significant policy considerations as the CCS sector is in its infancy, however, we continue to engage with stakeholders such as the Department for Business, Energy & Industrial Strategy (BEIS), Oil and Gas Authority and Scottish Government to progress this opportunity. We have also been a key partner in enabling UK Government funding for the development of a plan to decarbonise large section of Scotland's industry. North East Carbon Capture Utilisation and Storage (NECCUS) are the co-ordination group progressing this. Crown Estate Scotland sit on the steering group and are also part funding along with a number of large industrial players in Scotland.

In December we awarded Nova development rights for a new tidal development in the Sound of Islay up to 3MW. We have also received an application from a tidal developer seeking the development rights for a tidal project in Shetland. Work on the MeyGen remedial plan continues – enhanced rent payments for MeyGen are not currently being received and will be delayed.

12. Aquaculture

We have now received circa 40% of shellfish payments for 2021. The Association of Scottish Shellfish Growers had contacted Scottish Government to request we give a rent holiday for all shellfish producers this year. In response we confirmed we are happy to engage with any tenant to discuss, for example, a payment plan, if they are struggling. We have also now commissioned a study into Shellfish Alternative Markets and will shortly commission a study focusing on shellfish opportunities on the East Coast of Scotland.

The finfish Production Return Forms (PRFs) for 2020 will be submitted to us at the start of 2021 which will confirm what we will be invoicing this year.

The Root & Branch Review is covered under a separate agenda item.

13. Property

A detailed plan is in place to ensure smooth transition from Savills to Strutt & Parker who will take on managing agents' responsibilities for the rural portfolio from 1 April 2021.

Coastal:

- Completing shortly will be the sale of an area of reclaimed seabed at Tobermory to the Tobermory Harbour Association. Currently forming the main car park in Tobermory, the sale will enable the Harbour Association to work closely with Argyll and Bute Council to manage this key facility.
- The Property Team continue to assist the sponsor team in its application of Section 10 of the Scottish Crown Estate Act 2019 (i.e. the requirement to get Ministerial approval for sales of seabed).

Built Development:

- The contract for the Whitehill Estate Planning and Engagement strategy has been tendered and a consultant is being appointed.
- George Street option appraisal consultants appointed, and surveys completed.

Rural land:

- Condition survey tenders resulted in approval for one supplier for each of Glenlivet and Fochabers revenue and capital works. 24-week contracts are being instructed in early February.
- George Street: 3rd floor new tenant took entry 18 December 2020. The 4th floor tenant served a break notice for 29 March 2021 and the suite is being marketed actively. Heads of terms are being agreed with an interested party for vacant 1st floor office. We are still chasing information on turnover from the retail tenant in relation to the COVID-19 rent reduction arrangement.
- Good progress has been made on the 24 salmon fishing rights lease renewals due this financial year with terms agreed for 20. Seventeen leases have already been signed and discussions are continuing on the remainder.
- Glenlivet Estate deer fencing contracts - 2 restock sites were completed before the Christmas holidays. Final completion of the third site was delayed due to adverse weather.
- Glenlivet Estate tree planting contract was awarded in December 2020.
- Restocking works out to tender (ground preparation, planting, trees) for Applegirth Estate, ready for spring 2021.
- Tomintoul and Glenlivet Landscape Partnership projects have achieved their practical completion after four years of work and a total of £3.6m investment. The most significant for delivery by Crown Estate Scotland have included conservation projects at Blairfindy Castle and Scalan Mills; the construction of a wetland bird hide at Tomintoul; using green engineering to slow the flow and reduce flooding on the River Avon; and working with a tenant farmer to create new native woodland.

- The 2020 Glenlivet Estate trails bridge replacement programme has been delivered with new bridges at the Suie, Tullich and Glenmuillie. Another bridge is being reconstructed at Well of Lecht after heavy rains washed away the foundations.
- The Glenlivet Estate brand is being used for the first time on our new visitor marketing leaflet. An additional heritage leaflet will be produced, and a refresh of the Glenlivet Estate website is planned for 2021.

Partnerships / Pilots:

- The Forth District Salmon Fisheries Board (DSFB) pilot operations are now in progress, recruitment of a Forth Fisheries Development Officer underway and communications plans are being drafted. We have shared key policy information with Forth DSFB including a standard lease template.
- Orkney Islands Council (OIC) pilot implementation agreement has passed internal governance and is with OIC for execution. Tenants will be informed in advance of the agreement being signed and any publicising of this information.
- The Comhairle nan Eilean Siar (CnES) and Galson Estate Trust implementation agreement is in draft form for agreement before the end of the financial year. Shetland Islands Council's pilot remains on hold to meet their resource and time constraints.
- The Portgordon Harbour Memorandum of Understanding, harbour management group, property purchase and overall relationship management are progressing well. The property purchase remains with solicitors, with our offer having received Qualified Acceptance from the seller. The senior asset manager and partnerships manager had a positive meeting with Moray Council Harbours and are taking their advice on the harbour management group terms of reference. The Portgordon Community Harbour Group are tendering for feasibility work support using the Beatrice wind farm funding they secured. We remain on track to jointly fund a development officer role alongside Highlands and Islands Enterprise.
- We have confirmed joint funding of a Marine Tourism Development Officer post with North Ayrshire Council (NAC). Discussions on investment options at Hunterston and Irvine Great Harbour are progressing, with commercial models relating to the I3 manufacturing site having been tested against NAC's alternative sources of capital.
- Discussions with OIC Harbours around Scapa Deepwater Port, CnES in relation to the wider Stornoway Energy Hub and Deepwater port, and Lerwick Port Authority on potential investment models for Dales Voe Ultra Deepwater Port. Partnerships are also emerging around the Borderlands Inclusive Growth Deal and the Islands Growth Deal, and ongoing development of opportunities around Forth William and relationship building with Highland Council have been actioned.

Marine Tourism:

As part of our Memorandum of Understanding with NAC we have confirmed 50% support for a two year role employed by the Council to support marine tourism development around the Clyde region, with a distinct focus on North Ayrshire and the outer Clyde. This is the first commitment made under our MoU and is expected to generate opportunities for us and others to consider investment

cases for infrastructure that will underpin the marine leisure sector's sustainable growth and post-COVID recovery.

We are also in discussion with British Marine and Sail Scotland regarding providing financial and wider support for their 'Giant Strides' marine tourism strategy partnership, which is scheduled for soft launch later in February / early March 2021 and hard launch during the summer. A key component of this strategy relates to ensuring skills and training for the marine leisure sector is provided in a coordinated manner, with the University of the Highlands and Islands having been identified as one of the early partners. Combined with the upcoming launch of our Boat based marine tourism challenge fund this represents a cohesive suite of initiatives being supported by Crown Estate Scotland in relation to the broad marine tourism and leisure sectors.

Board	Twenty-fourth Meeting	BD(2021)24
Meeting date	24 February 2021	
Paper title	Q3 2020-21 Performance Management Dashboard BD(2021)24.4	
Security classification	Unclassified	
Presented by	Esther Black	
Author	Esther Black / Renée Lefrançois	
Annexes	Annex A: Performance Management Dashboard (Q3 2020-21)	
Recommendation	The Board is invited to comment on the Q3 Performance Management Dashboard (Annex A)	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

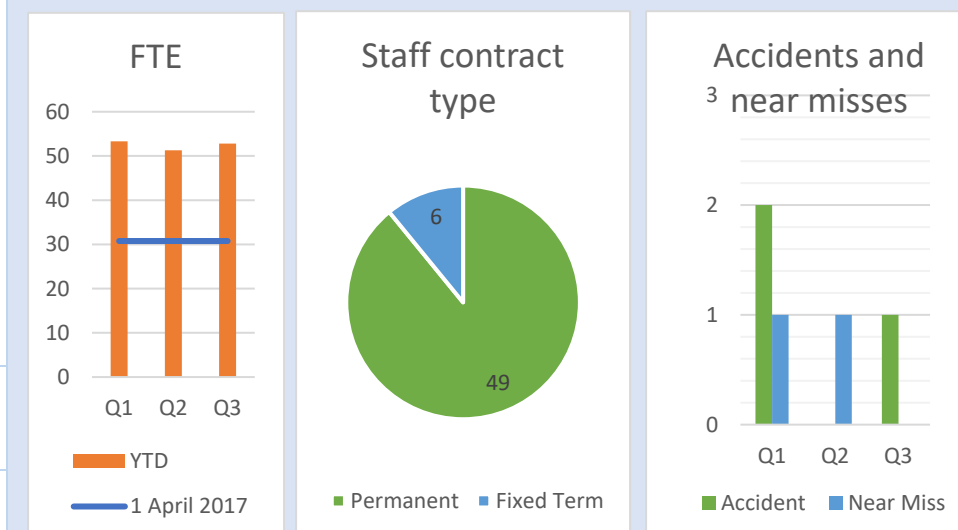
Background

1. In November 2019 the Board discussed and agreed our Management Information (MI) Framework. This sets out what is reported, to whom, when, and how.
2. The Board approved an approach to reporting on our 2020-23 KPIs during its meeting on 29 July 2020. As noted at that meeting, the dashboard at Annex A includes April 2020 as the baseline figure for KPI 1.
3. In November 2020 the Board requested that information on agency staff and IR35 consultants be included in the reporting. There are currently no agency staff or IR35 consultants in Crown Estate Scotland. The dashboard will be amended for Q4 reporting.

2020-21 Business Plan (44 Green out of 58 total) – significant ambers and reds detailed below

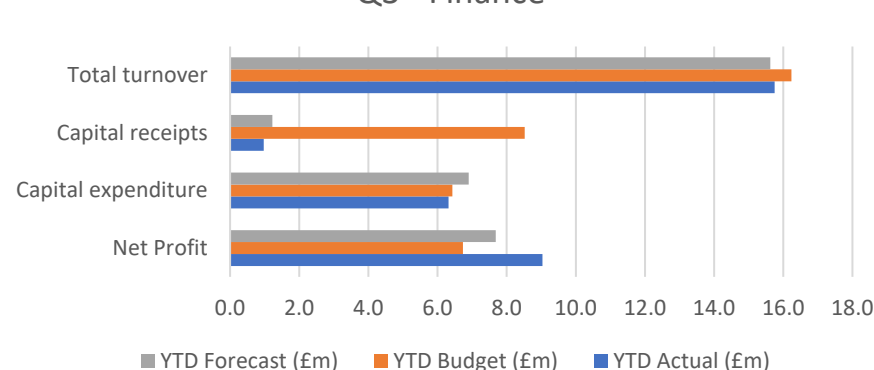
No	Action	Measure	RAG Status	Notes
19	Consult local community on future strategic built development around Rosewell on the Whitehill estate.	Consultation complete	Yellow	Covid19 has delayed progress for public consultation at Whitehill
24	Promote sustainable and diverse agricultural businesses through <ul style="list-style-type: none"> Supporting take-up and development of Integrated Land Management Plans by farm tenants through knowledge exchange events Developing at least one demonstration project with tenants to support business development and diversification Promoting Scottish Government's Scottish Land Matching Initiative to farm tenants through a knowledge exchange event Embedding natural capital approach to farm business planning 	<ul style="list-style-type: none"> At least one event delivered with associated wider communication At least one demonstration project developed At least one event delivered Two knowledge exchange workshops delivered 	Yellow	3 ILMP's taken up using SRUC service. Covid restrictions have impacted on being able to hold on farm events. Review & feasibility on proposed dairy business development project with Applegirth tenants & SAOS concluded and discussion held with tenants to discuss future alternative collaboration possibilities. Possible on farm event late March at Applegirth with Moredun Discussion with I Davidson on a webinar land matching service. Natural Capital event with tenants end Q4.
25	Complete a carbon audit of the Glenlivet Estate to inform future ecological 'master-planning' project in partnership with the Cairngorms National Park.	Audit complete	Yellow	Delayed due to capacity restrictions, tender process now in progress. Will not be completed until early 2021-22
29	Complete phase 2 of the Glenmullach Peatland restoration project at Glenlivet	Phase 2 complete	Red	No grant funding or support available from Peatland ACTION. Assessing alternative options to progress the project's long-term deliverable outcomes. Savills tendering for ecologist/peatland survey assistance. Project moved to 2021/22
33	Identify investment opportunities for renewables across four rural estates	Feasibility study complete	Red	Feasibility study on potential at Nether Dallachy Landfill site completed (unviable financially) but Covid & other priority work have prevented progress on the wider objective this year.
42	Support Marine Scotland's roll-out of Regional Marine Planning Partnerships (RMPPs)	Support for RMPPs delivered	Red	MS were originally seeking funding from us to support the further roll-out of marine partnerships but the roll-out has been delayed. Regional marine planning has recently been the subject of review by the ECCLR committee and MS will identify next steps based on the findings of the review.
58	Secure and move into suitable office accommodation	Relocation Complete	Yellow	Fit out underway – completion delayed by COVID-19; COVID-19 clause in operation

Top media stories by volume and reach	Volume	Reach
ScotWind (Offshore Leasing Round)	141	293,596,045
Offshore Wind (New mapping project)	12	32,247,436
Funding for Coastal Communities	31	7,823,421



KPI	Q3 figures
1. Offshore renewables in seabed agreements	8.79 GW April 2020 Baseline – 8.79 GW
2. Production capacity in new finfish agreements	0 tonnes April 2020 Baseline – N/A
3. Total capital committed	£4.2m
4. Capital committed to place-based projects	£4.0m
5. Capital committed to blue economy	£3.9m
6. No of projects promoting sustainable natural resource use	14
8. Net revenue profit	£9m

Q3 - Finance



Procurement Activity

Awarded (YTD)	Highlights (Quarter)
29	<ul style="list-style-type: none"> Conclusion of multi-lot tender for managing agents, 7 procurements in support of SOWEC funded projects, retender of all valuation services contracts on basis of multiple extension options to assist future load balancing, further competition for legal services issued. Use of ESPD embedded for all regulated and EU procurements, Use of internal contract register embedded as part of the PO approval process.

FOI Highlights & Trends:

- Total 12 requests: ScotWind Leasing bidding interest; AFL/Leases for OSW; Tender documents and contract for CCS feasibility study; seaweed cultivation
- 3 went to review (trip to Cornwall, seafood operator transfer, draft copy of a report into ways to deter predators from fish farms); all decisions were upheld

	Rural	Coastal	E&I	Aqua	Urban
No. of dealings/agreements	16	33	3	0	0
No. of properties vacant	44	N/A			1

	Rural	Coastal	E&I	Aqua	Urban	Non-Rental
Aged debt >30 days	£229,000	£216,000	£14,000	£2,000	£160,000	£10,000

Crown Estate Scotland Dashboard - explanatory notes

Q3 2020-21

Business Plan – reporting by exception

Amber status	Partially delivered / delayed.
Red status	Target missed / abandoned.

Total of 44 green out of 58 actions. Total of 6 actions which are ambers are primarily impacted by COVID-19 restrictions.

KPI

KPI in Corporate Plan	Definition	Corporate Plan 2023 target	Notes
1. Offshore renewables in seabed agreements	GW capacity defined in options and leases	No specific target	Capacity may be consented or unconsented. Given long lead-times, options included as a leading-edge indicator. Asset use classes: Offshore Wind; Wave & Tidal
2. Production capacity in new finfish agreements	Consented capacity in new leases, including renewals	No specific target	Consented capacity only. This will exclude most options but avoids counting capacity that will not gain consent. Asset use class: Finfish Farming
3. Total capital committed	All capital committed in 2020-23 through approved final business cases and case sheets	£70m	Excludes feasibility and business case development costs.
4. Capital committed to place-based projects	Capital committed in 2020-23 through approved final business cases and case sheets for buildings & places	£27m, indicative	This relates to the objective: Invest in buildings and help create great places. Assets: Built Environment.
5. Capital committed to blue economy	Capital committed in 2020-23 through approved final business cases and case	£26m, indicative	This relates to the objective: Support the sustainable expansion of Scotland's blue economy, focusing on marine and coastal development

KPI in Corporate Plan	Definition	Corporate Plan 2023 target	Notes
	sheets for blue economy		Assets: Mainly Marine and Coastal, but also including projects in Built Environment with direct links to the blue economy.
6. No of projects promoting sustainable natural resource use	Approved Investor or Enabler projects promoting sustainable natural resource use	£3m capital, indicative	<p>This relates to the objective: Promote new sustainable ways of using natural resources to produce energy, food and other products.</p> <p>Capital or revenue projects associated with the following assets and asset use classes: Rural Land, Other Seabed, Seaweed, Shellfish Farming, Finfish Farming.</p> <p>Project may also be counted under KPI 7 if encouraging community involvement.</p>
8. Net revenue profit	Total net revenue in audited accounts	£24m revenue provided to SG	n/a

Financials

Total turnover	Total revenue income
Capital receipts	Receipts into the capital account
Capital expenditure	<p>Expenditure from the capital account including surrender payments</p> <p>Q1 figures includes the Montrose purchase.</p>
Net Profit	Net profit distributable to Scottish Government

HR Stats

FTE	Sum of Full Time Equivalent compared to when CES began
Staff contracts	Comparing number of staff with permanent contracts and number of staff on fixed-term contracts

Assets

Number of new dealings/agreements	Rural figures include Rural Estates and Mines Royal & Minerals
No. of properties vacant	Rural & Urban figures include only truly vacant land which could be let; does not include salmon fishing.
Aged Debt	Debtors overdue by >30 days
	Non-rental debtors' debts overdue by >30 days

Stakeholder / reputation

Top Media Stories	By volume and reach – including the top 3 (ordered by reach) 80% positive coverage for the third quarter running; and no negative.
FOISA	Highlights and trends found in requests for information, as responded to under the Freedom of Information (Scotland) Act 2002 and Environmental Information (Scotland) Regulation 2004

Procurement

Total award	Total contract award in the year to date (when published on PCS)
Highlights	Key activities for the reporting quarter.

Board	Twenty-fourth Board Meeting	BD(2021)24
Meeting date	24 February 2021	
Paper title	Rural Farm Tenant Improvements Amnesty Update BD(2021)24.6	
Security classification	Unclassified	
Presented by	Andrew Wells	
Author	Chris Cassels	
Annexes	None	
Recommendation	The Board is invited to note this update on the progress with the Farm Tenant Amnesty process.	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

Background to the Amnesty

The recording and agreement of agricultural tenant's improvements is a central part of providing fair and reasonable compensation to a farm tenant at waygo (i.e. on the tenant quitting the holding or at termination of the tenancy).

Due to various difficulties over this process, the Scottish Government introduced an amnesty period, (Land Reform (Scotland) Act 2016 s.112 -118) during which tenants and landlords had the opportunity to agree on a definitive record of tenant's improvements, even if the proper procedures surrounding the notification and recording of the improvement were not fully implemented previously. The amnesty was aimed at agreeing what improvements should be eligible for compensation at waygo and did not affect the existing rules on the level of compensation payable at termination of the tenancy.

The process was designed to provide clarity over who provided the improvement (landlord or tenant), and an up to date, accurate and agreed record of tenant's improvements and the equipment provided by the landlord. The initial 3-year amnesty period started on 13 June 2017 and was subsequently extended to 13 December 2020.

The scope of the amnesty was applicable to tenants under 1991 Act tenancies, Short Limited Duration Tenancies and Limited Duration Tenancies and Modern Limited Duration Tenancies. Only improvements which would have been eligible to be treated as such at the time they were carried out are within the scope of the amnesty. The rules applicable to different types of improvement changed over the years however these are set out in schedules 3-5 of the Agricultural Holdings (Scotland) Act 1991.

A Code of Practice, “Amnesty on Tenants’ Improvements” was issued by Scotland’s Tenant Farming Commissioner (TFC) after consultation with, and with the support of, Scottish Land and Estates (SLE), the Scottish Tenant Farmers Association (STFA) and the National Farmers Union Scotland (NFUS). It was issued under the authority of the Land Reform (Scotland) Act 2016 and is part of suite of codes aimed at improving relationships and behaviours by landlords, tenants, their respective agents. The Scottish Land Commission (SLC) also developed online resources including supplementary guidance, case studies, example notice and model agreements/schedules which have been widely promoted across the sector.

Discussion

In order to encourage Crown Estate Scotland agricultural tenants to make use of the Amnesty and to keep them aware of the code of practice, Crown Estate Scotland and Savills have carried out regular communications with farm tenants in our newsletters and through the Tenant Farmers Working Group (TFWG) during this amnesty period in partnership with the National Farmers Union of Scotland. This included the following:

- | | |
|--------|---|
| Jun-17 | Amnesty letter sent to all tenants attaching SLC Code of Practice |
| Jun-18 | Amnesty reminder letter sent to all tenants by Crown Estate Scotland |
| Jun-18 | Amnesty draft template shared with NFUS and TFWG. Template agreed with Brian Shaw on behalf of TFWG |
| Aug-18 | Mark Fogden (Savills) and Brian Shaw (Applegirth tenant) recorded a video clip for SLC on the benefits of completing the tenant amnesty |
| Aug-19 | Amnesty reminder letter sent to all tenants by Crown Estate Scotland |

Despite this and further discussion across the sector, much of the activity and negotiations have had to happen towards the end of the amnesty period with a predictable rush of notices close to the end date of 13 December 2020.

In summary, 81 Amnesty notices were submitted by our tenants across the four rural estates (approximately 67% of potential applicants):

- Applegirth - 16
- Fochabers - 24
- Glenlivet - 39
- Whitehill - 2

64 have been agreed amicably to date and 17 are in the process of being finalised. Of these, 1 is awaiting tenant’s signature, 8 are yet to be finalised and the remaining 8 were delayed due the tenant or their agent not forwarding the correct details. These last 16 were all received in December and Savills are actively working to clarify and finalise these within the next month subject to the current lockdown limitations, but the expectation is that all these will be agreed. The table below provides a breakdown for each estate and which farms have been completed. Where the details have been received late due to the agent or incomplete information, it is the intention to finalise these working within the spirit of the code guidance.

Finance

At the start of the process it was agreed that Savills would be paid a flat rate of £500 plus VAT for agreeing each notice.

Legal

Following the date of receipt of an amnesty notice, the landlord has two months within which to object to any or all of the items contained in the notice (subject to specific grounds). The tenant then has two months from the date of receiving that objection within which to apply to the Land Court to have the objection overturned.

The Land Court then has 3 different options, broadly:

- Granting an order approving the items that are agreed by the both parties
- Granting a determination and issuing an Order if there is disagreement
- Sisting the application to allow more time for discussion.

At this stage, our aim is to finalise and agree the remaining farm tenant claims within the timescales outlined, however if they are not agreed then clearly the process may be prolonged as outlined above and may incur further costs.

Risk

In terms of delivery and timescales, the key risks associated with this process relate to the tight deadlines and COVID-19 restrictions which may impact on the conclusion of the process. It is the intention that Savills will complete this process prior to the change in the Managing Agent contracts on 31 March 2021.

Reputational / PR implications

From a reputation point of view, the organisation has committed to complete this process in a fair and transparent way to support ongoing relationships with our tenants and our responsibilities as a landlord. It has been challenging for all parties across the sector to undertake these discussions especially during the COVID-19 restrictions over the last 11 months, however in the longer term it should benefit all parties. The NFUS have remarked that the process adopted by Crown Estate Scotland as landlord has been exemplary.

Board	Twenty-fourth Board Meeting	BD(2021)24
Meeting date	24 February 2021	
Paper title	Crown Estate Scotland Aquaculture Review BD(2021)24.7	
Security classification	Unclassified	
Presented by	Alex Adrian and Colin Palmer	
Author	Alex Adrian and Anneli Hill	
Annexes	None	
Recommendation	<p>The Board is invited to (a) approve recommendations of the Review's draft report as set out below, and to consider preferred alternatives where presented (with context); and (b) to agree the appointment of an internal 'Review Group' to finalise details for adopted terms to be consulted upon, and consider consultation responses.</p> <p>The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest</p>	

Background

1. Historically rent reviews ('reviews') for aquaculture business, incorporated in lease terms, have been undertaken separately by sector every 5 years. The last for shellfish was in 2015 and that for finfish in 2017.
2. The principle behind determination of the rent is that it should reflect the value of the leased subjects to the business, and the appropriate proportion of that business value that should accrue to their owner. It is calculated therefore as a percentage of the turnover achieved by business carried out at or over those subjects.
3. Business turnover for aquaculture is arrived at through the reporting of production achieved or calculating that achievable on equipment consented for a development, multiplied by a typical per unit market price. Much of the work of a review is to identify this market price as accurately as possible. This can be difficult where production may be sold both to a representative commodity spot market (eg. Billingsgate for UK, Rungis for Europe) as well as directly under contract to specific customers, who may be in the UK or abroad.
4. Once turnover is established the review will reflect on the appropriate percentage of that turnover due to the landlord for the nature of the business carried out on the leased subjects.



This decision will also consider market volatility, costs of production and inherent production related risks within the review periods.

The percentages used in aquaculture have remained largely static, by sector, since formal rent reviews were put in place around 20 years ago.

Rent reviews over the past 15 years have consistently determined this at or just below 1% for finfish (salmon being the main market considered) and circa 1.2% to 1.3% for shellfish.

5. To date for both finfish and shellfish a typical market price has been identified on the basis that it will remain relevant or appropriate to market conditions over the 5-year review period, enabling a fixed tariff to be used during that time. In the case of shellfish this has been because of a relative lack of market volatility. For finfish more in anticipation, based on historical evidence, that any volatility will be such as to maintain the identified price as the persisting average.
6. The 5-yearly interval for the review of the market price means that a standard rent applies by sector for that period. The manner in which it is levied depends on the nature of the businesses characterising the sector, in terms of scale, complexity and administrative sophistication – the latter largely for any necessary auditing purposes.

Current Regime

7. For finfish the rent is levied as a fixed royalty per reported harvested gutted weight kg (or tonne). Harvests are reported annually for each lease agreement and subject to periodic audit. The current royalty is 2.75 pence per harvested gutted weight kg for salmon and 0.74 pence for trout grown in seawater.

The 2-year cycle for salmon and trout production means that a royalty based rent is levied every second year, on average, when the harvest of a stocked generation is carried out, and a 'vacant rent' of £1000 is charged for the alternating year when there is no harvest. The reported nature means that both are charged annually in arrears.

The rent invoiced for finfish – salmon and trout - production in 2020 based on reported 2019 harvests was just over £5 million. Salmon dominates to the tune of 98.6% by volume and 99.6% by revenue

8. For shellfish, rent is levied as a species-specific tariff per unit of consented equipment (eg. 20.5 pence per metre of mussel long-line or 26.5 pence per metre of oyster trestle), subject to a minimum rent that is also species specific, eg. £135.00 for mussel cultivation. As this is based on consented equipment which does not change from year to year unless formally varied following statutory approval, it is charged annually in advance as a fixed rent roll.

The rent invoice for shellfish in 2020 was just over £100,000.

9. An Outer Isles discount of 10% applies to rent for both finfish and shellfish production in Shetland, Orkney and the Outer Hebrides. This has been in place in different degrees for the

past 20 years, or more, and has been reduced for shellfish previously from 20% to that applying now. It is looked at further in relevant sections of this paper below.

10. The nascent but increasingly emerging seaweed farming sector is currently charged a rent based around that for a similar deployment of equipment for shellfish since there is as yet no clear means of identifying a typical market price for farmed seaweed.
11. Following the approval of Crown Estate Scotland's Aquaculture Strategy in 2019, the decision was taken to conduct a 'root and branch' review incorporating consideration of both rent as well as lease terms appropriate to the strategy for all aquaculture business sectors.
12. The shellfish review due in 2020 was therefore postponed and included with the finfish review for 2022 with which this review aligns.

This Review

13. The format of this review follows that of previous ones. Recommendations proposed in the review report are presented here for consideration and approval by the Board. Adopted recommendations will then be formally consulted upon with the aquaculture industry, and the Scottish government. Industry consultation will also serve to inform the conclusions of a finalised Islands Assessment.
14. The nature of this review however differs from previous ones conducted by The Crown Estate (TCE) since 2007. They were expressly 'independent' insofar as TCE committed to adopt the review's recommendations unchallenged from the outset. This one is not and while it is referenced as 'expert' with the contracting of the expert panel, Crown Estate Scotland reserves the right to adopt, amend or reject the review's recommendations. Decisions on final revised terms will therefore be arrived at from the Board's consideration of the review's proposals and any further changes agreed to arising from the above consultations with government and industry.
15. Representations received from both will be considered and inform, as the Board at that point deem necessary, finalised terms to be implemented on 1 January 2022.
16. The Board will be aware that COVID-19 disrupted the original review timetabling. The process was delayed by three months but not shortened, chiefly to accommodate the reduced ability of the expert panel to consult properly with the industry while the latter coped with the impact of the pandemic on their businesses. Since the implementation date of 1 January 2022 is maintained, the consequence of the delay is a curtailment of the time available to Crown Estate Scotland for necessary administrative measures for implementation of the review's outcomes.
17. This Review and recommendations aim to address Crown Estate Scotland priorities for its aquaculture business that at the same time offer reasonable and proportionate terms and adoption processes for its tenants' businesses.

Discussion

18. The aquaculture strategy was derived from three themes - sharing financial success, sustainable performance, and optimisation (effective use of the marine resource) – and their relationship in the development of the aquaculture industry sectors.



19. These informed the three required outputs of the review that, following a tender, was commissioned from a consortium ('the expert panel') led by Stephen Pollock of Avison Young, namely
- (i) **Revenues** – *to recognise value*
 - (ii) **Wider management/lease terms** – *for sustainable performance and development*
 - (iii) **Mechanisms through which leases and licences, including option agreements, are offered to the market** - *to optimise value.*
20. These are considered by sector and it was agreed that this would recognise that the sectors were now quite different in both the nature of the activity undertaken, their markets and the businesses that characterise them. As such reviewed terms would align with sectors rather than look to a more overarching 'aquaculture umbrella'.
21. For **revenues** key questions for either or all sectors include;
- The consistency with which the annual rents reflect market price (in light of consistently strengthening market prices for salmon over the last review period); the appropriate turnover percentage to be used in view of the overall value to the business conferred by the leased subjects; payment terms for royalty-based rents charged in arrears; and retention or not of the Outer Isles discount.
- The expert panel dealt with this element of the review which involved consideration of industry performance, current practice in Scotland and in other producer countries, and consultation with industry. Their key recommendations are presented under the Financial section of this paper.
22. **Lease terms** addressing sustainable performance management must ensure they are in accordance with our legislative mandate and role, and do not overstep the distinction that must be maintained between those of the statutory authorities who regulate the industry.
- This is best achieved through measures that reflect our priorities for responsible tenancy of the shared marine environment - obligations that extend a duty of care and stewardship beyond development-specific consenting conditions.
- Several options that might accord with such obligations were assessed against an appraisal matrix of criteria for sustainability, socio-economics and optimisation, and the resultant recommendations appear below under the Sustainability section of this paper.
23. Criteria used for the assessment of applications and granting of development rights ('**leasing mechanisms**') include consideration of both revenue and business performance related options. In the case of the former (i.e. revenue), the requirements of the Scottish Public Finance Manual for asset management were included, and for the latter (i.e. business performance) the Crown Estate Scotland Aquaculture Strategy was a consideration. We already have and use published criteria for grants of lease and lease options. The review examines prospective additions to these that might accord with financial and/or sustainability requirements.
- Recommended measures fall within those already listed under Financial and Sustainability sections below. It should be noted that auctioning was considered as part of this review.



24. Some of the recommendations in the Review report from the expert panel provide for alternatives considered equally appropriate, and/or measures for more discretionary adoption. Also, several proposals, once adopted, will require further analysis to confirm the details required for implementation. These will be useful if not necessary for queries likely to arise at the industry consultation.

It is proposed that any additional analysis to confirm practical implementation details of approved recommendations is undertaken by a 'Review Group', potentially overseen by a Board representative (or representatives) and including the Director of Marine and relevant aquaculture business team members, with appropriate legal advice as required (make-up to be confirmed).

25. The Board is therefore invited to approve the Aquaculture Review's recommendations set out in its draft report, the main elements of which are summarised below, and
- The key points of each, for agreement, are précised in bold text in the individual paragraphs below.
 - Where consideration is required of recommended or available alternatives, this is addressed further in italicised text below the relevant paragraph. Additional context is also provided in this manner where it may be helpful.
 - The appointment of an internal 'Review Group' referred to in paragraph 24 above is also proposed for agreement.

Financial

26. Finfish: (salmon)

- The review recommends that while rent should remain dependent on the level of production on the leased subjects, **it should move to a percentage of notional turnover rather than a set rate per kilo of harvested fish**, as it is at present.
- It recommends this rent is **based on 1.0% of the total of the weight of harvested fish in a reporting period**, referenced to the Fish Pool market price index for average Norwegian product in that period and converted from Euros to Sterling applying HMRC referenced exchange rates. This referencing will provide for accurate assessment of turnover and enable the 1% proportion to be more consistently realised.

This rent will apply for all existing leases from 1 January 2022.

Use of price averages for salmon of Norwegian origin (the bulk of global sales and therefore a more reliable 'market' movement indicator) produced by Fish Pool Index and using applicable HMRC currency conversion rate will allow rent to track average market price. While this exposes Crown Estate Scotland to drops in price that a fixed tariff does not, it constitutes a more equitable sharing of risk and financial performance and allows for rent payments to remain more consistently at the 1% level over time.

- If possible, **reporting will allow invoicing quarterly in arrears based on 'current' prices** so the reported statistics for say January, February and March will form the basis of a rent invoice issued in May in the same year etc.



This follows the current spread of payments over the year but only quarterly instead of annually in arrears.

The benefit of quarterly reporting and invoicing in enabling closer tracking of average price movement must be balanced against a potentially significant resource implication in its execution, compared to that required at present (this is also addressed under 'People Considerations' below).

- d. It further recommends that **the overall charge as a proportion of turnover should move to a higher benchmark of 1.5%, linked to a revision in the lease to include a tenants option to renew for a further period of 25 years giving additional security over the leased asset.**
- e. This recommendation will allow for **a further payment when the option is triggered to an annual rent based on 1.5% of notional turnover - or a capital payment with the rent remaining at the previous 1.0% level.** The capital payment will be referenced to the CAR license consent and apply a rate per tonne to be assessed by Crown Estate Scotland on a regular basis. **The capital payment combined with the ongoing 1.0% rent should be the equivalent of applying a 1.5% rent payment over the 'new' 25-year term.**

The recommendation is that the higher benchmark of 1.5% is met either wholly as rent or rent plus capital payment, as described, at the tenant's discretion. The Board is invited to confirm whether they are content with this or whether this should be at Crown Estate Scotland's discretion, and how this discretion may be exercised. For example, a tenant may propose one or other alternatives at lease application and this is subject to Crown Estate Scotland agreement perhaps based on a set of assessment criteria.

- f. While proposed that this increase in benchmarked rate applies at lease renewal, the review notes that **we may wish to consider having this as a standard provision for new leases granted after January 2022**, but possibly waived for the initial lease term at our discretion.

The Board is invited to consider whether the move to a 1.5% of turnover benchmark, if agreed, should be included as a standard provision from the outset of all new leases granted after January 2022, or waived for the initial 25 year term and apply when the option is exercised at renewal. In this regard it could be argued that the inclusion of the option to extend represents a benefit during the initial term, as a confirmed offer of security for renewal that can be used to leverage investment, for example, during that period.

- g. The implications of COVID-19 on businesses is relevant to the proposals for the revised 1.5% benchmark. **To accommodate business recovery Crown Estate Scotland may be minded if it adopts the capital payments payment mechanism, to reduce the recommended 'business as usual' level of the capital premium referenced per tonne of CAR consent in the short term** for new leases and/or renewals. This can be monitored and restored appropriately over time.

In practice this may not be that significant, if accepted, since over 80% of extant leases are not due for renewal until after 2030, and new finfish leases over the past couple of years have been in single figures. Where it may be more significant is if modification to existing leases require new development consent and an associated new lease, but this cannot be quantified now.



- h. By way of a very approximate example, if 2019 and 2020 calendar year production were invoiced at 1% of turnover on the above basis - with a price that was the average of the Fish Pool market price and the Outer Isles discounted market price - this would realise respective increases in farmed salmon revenue of circa £3.5 million (or 70%) and £2.6 million (or 56%), according to annual average price and exchange data for those years, noting that 2020 was subject to a Covid-induced market downturn.

Excluding the discount would give circa £4 million (79%) and £2.99 million (65%) respectively.

- i. **A phasing out of the Outer Isles discount** applying to finfish production.

The very consolidated nature of the salmon industry means that 4 of the 5 main producers operate on both mainland and outer isles, and only a single salmon farming tenant is wholly island based. The discount is highly unlikely to be a consideration for preferred production location, and the use of shipping to move both harvested fish for slaughter and processing and deliver feed, especially for the larger producers, has reduced reliance on and use of ferries.

It is also the case that the move to more exposed locations and the associated operational resource and infrastructure required, whether in the outer isles, inner isles (where there is no discount)t, or parts of the mainland will continue to remove remaining historical operational differences between producing on outer isles vs mainland.

- j. **The 'vacant' rent**, i.e. that charged in years where sites in production don't actually harvest anything (the production cycle spans two calendar years with harvesting predominantly in the second) **is proposed to double from £1000 to £2000.**
- k. Sites used to produce fish that are not harvested immediately but transferred to other locations for on-growing - **'nursery' sites - are recommended to be charged at a multiple of the vacant rent or some other means that reflects the CAR consent capacity.**

These sites are not routinely used, more often being best use of a site that is unsuitable for full scale production. However, the advent of developments in offshore locations too challenging for juvenile fish below a certain size and/or inshore 'closed containment' nursery sites may see greater use evolve over time as production cycles include more than one location.

The suggestion is that if the Board are content to do so, an appropriate rent determination mechanism is investigated and confirmed by the proposed Review Group.

27. Finfish: (trout)

- a. For trout cultivation the **rent structure will be based on the proposed salmon price formula but apply an adjustment factor of 50%** (by comparison the current fixed production tariff for trout is at 25% of that for salmon). This aligns with other producer country approach to the market relationship.
- b. The capital payment option may not be relevant given the characteristics of the sector and **the 1.5% benchmark implemented as rent only.**



- c. **Vacant rents are recommended to move from £100 to £1000 per annum.**

28. Finfish: (all)

Payment Terms – the recommended move from rents charged annually to quarterly in arrears means in effect that **2 years' worth of rents will be invoiced over the course of 2022 as a result of the changeover**. This will place an additional financial burden on the sector and will have to be managed accordingly

29. Shellfish:

- a. It is recommended that **the fixed equipment-based rent structure for shellfish remains in place**.
- b. Crown Estate Scotland's strategy for farmed shellfish is to support growth through securing economic resilience. Marine Scotland is similarly embarking on a Shellfish Recovery Plan to lift industry beyond its present rather static scale and contribution.
- c. In view of this the review recommends that it is appropriate that **shellfish tariffs remain as currently set**.
- d. **A phasing out of the Outer Isles discount** applying to shellfish production.
While this would impose an increase on islands-based producers it is unlikely to be a key factor in the location or prosperity of shellfish farms, particularly for future development of the sector, and its removal will create a level playing field for producers all serving the same markets which is arguably a more important consideration for an organisation like Crown Estate Scotland.

Evidence in past reviews suggests that costs of transporting shellfish between the Glasgow distribution hub and farms in the inner isles such as Mull (where no discount applies), extremities of the north west mainland, and Lerwick are not markedly different. While inter-island transport costs were proposed as an additional 'internal' outer isles cost, the degree to which this is a factor for farm locations, compared to others such as water quality, planning confidence and production performance is considered insignificant. This is also dealt with in para 44 under 'Risk' below.

- e. The **minimum species rents however will be increased in line with inflation** (from £135 to £200 for mussels and from £115 to £175 for oysters).

While this will impact the smaller developments, the actual sums are not significant in themselves each being less than £100 over 12 months. Also, this accords with Crown Estate Scotland's ambition to move shellfish production to more commercially viable scales of production – ref. the Crown Estate Scotland 'Critical Mass' study for shellfish commissioned in 2017.

30. Seaweed:

- a. The nascent stage of the sector's development allied to a different type of downstream supply chain to that of shellfish and finfish production means that there is as yet no clear

and confirmed market that might yield up a price from which business value could be reliably determined.

- b. The review therefore recommends that until such time as seaweed farming business value can be consistently and reliably confirmed and a sector-specific rent thereby derived, developments are subject to **the most appropriate 'shellfish farm equivalent' rent, based on consented equipment**. This will be that used for mussels.

31. Lease Option Agreements (LOA):

- a. At present LOA are granted free of charge albeit limited in availability, with any single applicant only permitted to hold up to 5 where no application for statutory consent has yet been submitted.
- b. LOA are granted for a term of 3 years (statutory consent applications must have been submitted within 2 years). However, grantees can extend the term to 5 years where necessary for a £1000 fee. In practice this extension is generally required by finfish rather than shellfish producers given the more complex and protracted nature of the consenting.
- c. The review recommends retaining the LOA processes but **introducing a sector-specific charge for LOA**. For shellfish this may be % of the rent that will be due for the proposed site equipment, if known, or simply a multiple of the minimum species rent, the suggestion being 2x. For finfish, while a fee linked to the production capacity sought would be best suited, this is often not available at the point where LOA are applied for and therefore it may be that a multiple of the vacant rent, again 2x, may be the most appropriate.

The move to charging for LOA is proposed chiefly in the context of improved seabed management rather than revenue raising per se. Use of these agreements in the absence of any specific spatial sectoral plans for aquaculture development must aim to balance necessary focus of the grantee on evident development prospects while not unduly burdening or discouraging development appetite. Charging levels should discourage more speculative and albeit short-term, nevertheless wasteful, seabed interest and encourage more considered applications for such rights that continue to be viewed as cost-effective.

*The review suggests that higher costs may be levied where the opportunity exists to recover them against the first year of rent for a successful conversion to lease
The recommended 2x vacant or minimum rent for finfish and shellfish looks to achieve this proportionately, but this could be confirmed by further consideration by the proposed Review Group.*

Sustainability

- 32. The aim of this element of the review was to identify terms for measures that encouraged tenants' observation of their wider stewardship obligations in a shared marine environment and offered opportunity for them to demonstrate their on-going work and achievements.
- 33. The review recommends this is accomplished through the addition of **a reporting requirement in the lease**.

34. Matters or topics to be reported on will be separately referenced in the Schedule to the Lease and reflect sustainability priorities for the marine environment. These may be sector-specific or apply to all aquaculture tenants and will be **reviewed periodically to ensure they remain relevant**.
35. The initial topics for reporting, which will be accompanied by appropriate guidance, are recommended as;
 - a. **Participation in (collaborative) Management Agreements** to mitigate cumulative impacts. This will be required of **finfish tenants**; and
 - b. **Management of plastic used on leased subjects**. This will be required of **all aquaculture tenants**.
36. Reports will be required 'per tenant' and reference individual leased subjects only where necessary. They will be published on the Crown Estate Scotland website to enable stakeholder transparency on tenants' performance in these matters, on a rolling 5-year basis.
37. Reported performance will be used to inform assessments for applications for additional seabed interest where appropriate. For example, participation in Management Agreements by finfish tenants will be used to assess risk in granting access to areas that already have incumbents.
38. To encourage and enable improved economic performance and innovative measures for sustainable practice, the review recommends the following for the granting of Lease Option Agreements (LOA);
 - a. To support shellfish and seaweed farming businesses to attain necessary 'critical mass' production volume thresholds for confirmed commercial viability, CES waive the limit on available LOA and permit as many as required albeit on an all-or-nothing basis for a submitted business plan;
 - b. Where applications for seabed interest are received from finfish tenants for closed containment or other innovative developments that reduce environmental impact, CES grant LOA that are separate to the existing limit on availability for LOA for standard developments.

Legal implications

39. A partner of Anderson Strathern (AS) has participated in meetings with the expert panel over the course of the review and has had sight of the preliminary draft and its recommendations, and no issues have been raised. Significant legal input will be important in the drafting of the revised agreements and implementation process which will also serve to check once more for matters requiring resolution.
40. At inaugural internal meetings to set out the review framework and identify Crown Estate Scotland priorities, AS confirmed that adoption of reviewed terms, with the exception of a 'reviewed rent' (see para 47 under Risk below) into extant leases can only be done with the tenants' agreement.

41. Islands Assessment: Crown Estate Scotland has met with Scottish government officials on this matter to confirm requirements. Consultation with potentially affected parties is crucial to its conclusions and this has already begun in part through the discussions the expert panel has had with the aquaculture industry, and consideration of the Outer Isles discount in particular which the review recommends be dispensed with. This will be followed up by the formal consultation on adopted recommendations with industry following the Board's conclusions on the review, which will serve to conclude the assessment as part of the finalisation of terms to be implemented on 1 January 2022.

Risk

42. The review's recommendations confirmed by the Board for adoption will be consulted upon with the industry and Scottish Government prior to the review formally concluding.
43. Questions and challenges are anticipated from the finfish sector especially that may require amendment to the recommendations, if accepted, and/or delays to the timetabled process if further resolution is necessary. This is more of a risk where terms require agreement for incorporation into existing leases. Approval or amendment of recommendations must be undertaken with this in mind and the likelihood of necessary justification of Crown Estate Scotland's position to its finfish tenants with respect to rent and benchmark revisions particularly.
44. Challenge from the shellfish sector, less so from finfish, is likely in relation to phasing out of the Outer Isles discount. The dominance of Shetland for Scottish farmed mussel production will provoke representation from producers and possibly community representatives there. This will be scrutinised by the Islands Assessment process but the main justifications, already mentioned under 'Financial' for both sectors above, remain – namely;
- a. A 10% discount in rent is no longer a significant feature in the locating of shellfish farms, compared to presence of optimal growing conditions, similar for infrastructure and support services - both internal and external, logistical challenges relating to access, existing critical business mass, likelihood of consent, etc. The success of mussel farming business in Shetland is not reflected in the Outer Hebrides, for example, subject to the same discount.
 - b. Transport costs to and from areas other than the Outer Isles can be of similar magnitude, as referred to in 29d above. This is particularly true of Inner Hebrides islands such as Mull and Colonsay, but also remoter parts of the north-west mainland.
 - c. Individual producers will encounter and reconcile their own opportunities and challenges in relation to selected locations, be they islands or mainland, and Crown Estate Scotland considers it more important that such often complex decisions can be taken in the context of a level playing field of charges applying for the production planned and the its wider market
45. To minimise the risk of delays, the aim will be to secure the Government's response ahead of the start of election purdah at the end of March, ideally incorporating ministerial oversight. If any confirmed government view is left to post-election, this will place additional pressure on completion timetabling.

46. The outline proposals for the draft recommendations have been briefly discussed with Marine Scotland representatives and well received at that point.
47. Reviewed terms can be applied to new leases from 2022, but to take effect for extant lease agreements, adopted terms, other than a reviewed rent, will need to be set out in a Minute of Variation to the lease that is signed by the grantees. For clarity and transparency, the preference would also be to narrate the reviewed rent terms in a minute between the parties. In the case of the rent, while Crown Estate Scotland as landlord has the right under the terms of existing leases to “review the rent to a sum deemed appropriate”, if the tenant considers this unacceptable the lease provides for the matter to be referred to a designated arbitrator, in all likelihood the Valuation Office (Scottish Assessors). This is unlikely to be a quick process and the proposed implementation timetabling for reviewed terms may well encounter delay.
48. The move from current to revised finfish rent payment terms will mean that ‘two years worth’ of rents become due in a single ‘changeover’ year, albeit still spread over 4 quarterly payments for each of the old and new rents. Industry are unlikely to welcome this (although it may well still be affordable) and it will have to be handled sensitively with some scope for agreeing more sympathetic payment scheduling if and where a compelling case presents itself either for individual tenants coming forward or the sector as a whole.
49. This review concludes amid Brexit and COVID-19 circumstances for producers and their markets. As yet no real clarity is available on just what the effects of either will be. The Review offers comment on prospective implications and proposes one mitigation for consideration that is referenced in 26f above. This presents two risks; firstly in relation to actual impacts over time and how consequent industry fortunes manifest themselves in relation to the revised terms (development appetite, for example); and more immediately, in the acceptance or not by industry of revised terms during consultation relative to their perceived influence on Brexit and COVID-19 impacted businesses.

People considerations

50. The proposed finfish rent regime will require significant increased administrative input for rent accounting in the form of required quarterly price and conversion confirmations, reporting administration and invoicing. It represents a quadrupling of the rent accounting processes, and therefore has resource implications
51. In light of this thought should be given to adoption of the quarterly finfish reporting and invoicing recommendation and the potential need for additional resource, against the degree to which less frequent e.g. half yearly, reporting and invoicing on the same basis, might meet revenue accounting requirements.
52. The preparation and implementation of reviewed terms for January 2022 will also require significant input from the aquaculture team at Crown Estate Scotland, most importantly the drafting and completion of Minutes of Variation to have the terms incorporated into existing lease agreements.

Reputational / PR implications

53. The reviewed terms include a number that are likely to draw some unfavourable comment from industry. The rent increases for salmon in the main, possibly one or two for increases in minimum rents for shellfish, and new charging for lease option agreements that were previously free may all be perceived as burdensome to whatever degree on important coastal economy businesses that will have just emerged from or still be subject to the trials of COVID-19 and Brexit at the point they are implemented in January 2022.
54. The proposed removal of the Outer Isles discount, although this will be subject to an Islands Assessment, may also be poorly received by island communities and their representatives.
55. Therefore, while we have sound reasons for all the recommendations proposed, the consultations referred to above will need to be accompanied by a considered narrative that sets these out clearly in relation to Crown Estate Scotland's mandate, role, and Corporate Plan. Marine Scotland comment on the proposals was to encourage the emphasis in presentation on the benefit of additional revenue to local communities as these 'recycle' back through the Consolidated Fund.

Health & Safety

56. Aquaculture lease agreements include a clause indemnifying the Monarch, managers of the Scottish Crown Estate and their officers from any and all risks and consequences of actions undertaken on or in relation to the leased subjects. There is also a requirement that tenants comply with all relevant EU, UK and Scots laws.
57. History and precedent over 40 years of aquaculture in Scotland is that no claim or liability for health and safety matters on leased seabed or foreshore has ever arisen despite serious accidents and fatalities on aquaculture sites.
58. If there is a desire to include further confirmation of indemnity specifically relating to health and safety, this paper suggest this is simply included when revised agreements are drafted rather than being consulted upon (where it may run the risk of calling into question the perceived validity of the existing terms).

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Meeting date	24 February 2021	
Paper title	ScotWind rapid review of option structure BD(2021)24.9	
Security classification	Restricted	
This document contains commercially sensitive and confidential information and may relate to the formulation of policy.		
Presented by	Simon Hodge	
Authors	Simon Hodge with input from John Robertson & Colin Palmer	
Annexes	Annex A: The Crown Estate announcement Annex B: Announcement of delay to ScotWind Annex C: Rapid review terms of reference Annex D: Ministerial correspondence with SOWEC Annex E: preliminary decision structure	
Recommendation	The Board is invited to note this update as a basis for Board discussion.	
The board secretary or chairman should be advised if the contents of this paper give rise to any conflict of interest		

1. Background

On 8 February The Crown Estate announced the results of the Offshore Wind Round 4 auction (news release at Annex A). The level of bidding was unprecedented and signalled a potential structural shift in the offshore wind sector, notably with the entry of another international oil and gas major. Depending on the development timeline, this auction could raise up to £9bn in option fees for 8GW of capacity (Currently ScotWind would yield a maximum of £86m for 10GW).

Crown Estate Scotland, with the support of Scottish Ministers decided to delay the live ScotWind application process to allow an evaluation of implications for Scotland (announcement at Annex B).

We have framed terms of reference for the rapid review in discussion with Scottish Government (Annex C). This was supported in a meeting on 18 February 2021 with Energy Minister, Paul Wheelhouse and Rural Affairs Minister Ben Macpherson. The scope will be put around a number of Cabinet Secretaries and a Cabinet briefing has already been issued – an indication of the significance of this issue across the Administration.

This paper offers an initial exploration of the issues and work in progress, aligned with the terms of reference.

2. Review objective

Early discussions within Crown Estate Scotland, with Scottish Government and between the Chair and Cabinet Secretary ECCR, Roseanna Cunningham concluded that it was most preferable to undertake a rapid narrow focus review rather than anything more fundamental. Our announcement framed this as a 'review of option structure' in the light of the Round 4 results.

The review aims to retain focus on securing significant offshore wind investment in Scottish territorial waters, recognising Scotland's development challenges. The review will consider how option receipts can be maximised in a way that does not jeopardise this development pipeline.

The review will be supported by expert advice to Crown Estate Scotland from Aurora, who informed the formulation of the current ScotWind approach. The Scottish Government has re-engaged Strathclyde University Centre for Energy Policy, who they used to independently review the proposed Crown Estate Scotland approach prior to submission to Ministers.

3. Timing and organisation

The declared aim is to complete the review for a resumption of the ScotWind leasing round by 24 March 2021. This date immediately precedes the pre-election period during which Ministers are unable to be involved in decisions or announcements that could affect the election.

Whilst we await formal confirmation from Scottish Government and Ministers on this point, we are aware that this line is being taken by Scottish Ministers (for example, communication with SOWEC at Annex D).

This timetable is very tight. It is being managed as a task and finish project with an internal liaison group, formalised lines of engagement with Scottish Government, internal governance arrangements and coordination support. Workstreams are:

- Objectives and scope
- Core report drafting
- External advice
- Legal advice
- Accounting advice
- Applicant comms
- Media comms and relaunch
- Internal governance
- Coordination with Scottish Government
- Coordination with Ministers /Committees/SPADS
- Internal coordination and timeline management

We have requested a series of engagement opportunities with Ministers through the timeline to confirm scope, to secure feedback on preliminary analysis and options, and to seek early agreement to recommendations. Scottish Government are yet to confirm meeting dates with Ministers. A key provisional date is 11 March 2021 for presenting draft recommendations to Ministers. We will be seeking Board engagement and approval a few days in advance of this. The aim is to secure final signoff in the week commencing 15 March for a relaunch of ScotWind by 22 March (Ministers are keen to avoid the last days before the pre-election period).

4. Review parameters

Work is ongoing to establish the decision structure of this review. Key parameters are described below. A preliminary decision framework is at Annex E.

a. Consideration of option fee structure

The current option fee structure is three set price points, the highest being £10k/km². This constrained approach was designed around expert advice from Aurora to reduce the likelihood that Scottish schemes became uneconomical and hence unsuccessful in securing CfD.

This is still a key consideration, but the new market information from Round 4 makes current market conditions very difficult to read. The highest option price point would have to be raised from £10k/km² to in the order of £500k/km² to reach any equivalence with the lowest Round 4 auction price (NB: Round 4 fees are per MW per year).

Scottish sites are, on average, more challenging than Round 4 sites, and many will require the use of floating wind technology. Scottish zones also encompass a wide range of conditions and constraints. This could mean that a very high price point is more likely to affect the best sites.

Consideration of option fee structure will also consider the merits of removing all price points to allow the market to find its own level. This does run the risk of over-bidding to the detriment of long-term project viability.

There is a potential hybrid approach, involving annual option fees and a premium at step-through to lease. This could reduce the immediate financial impact on bidders, with a potentially more substantial step-through payment at the end of the option period. This hybrid approach might enable use of capped annual fees to encourage participation in ScotWind, whilst inviting open market bids for step-through premium. Such an approach could mitigate change of control risks (see below) and could affect the financial risk associated with options that fail to step through to lease.

The review will consider the high variability between sites. This is not straightforward due to the number of factors at play and the lack of clear delineators. Differentiation by floating or fixed technology is one consideration, although this depends on developer strategy as well as sea depth and conditions. For the shallower sites with potential for fixed wind, seabed condition is also a key variable with sites in the east tending to be more benign than sites in the west and north. Distance from landfall and grid charges are important considerations. Round 4 bidding also suggests that proximity to oil and gas assets could also be a significant factor for some bidders. There are other, and as yet unconfirmed, market developments that could influence relative attractiveness of Scottish sites. Significantly, the UK Government has proposed amendments to the CfD scheme which would introduce floating offshore wind as a separate eligible technology with its own administrative strike price, providing a distinction from conventional, fixed-bottom projects. It is therefore unlikely to be viable to develop evidence-based and defensible options around this complex set of variables.

b. Evaluation process

The review will consider any impacts on the evaluation process consequential on the recommended option fee approach. It will be important to test for unintended outcomes, for example where poor-quality bidder secures an option by offering unrealistically high fees, or where a major uplift in



option fees is foregone for a marginal benefit on another parameter. Initial analysis suggests that the current evaluation process is structured suitably to avoid unintended outcomes.

c. Change of control

The level of bidding for Round 4 options raises the concern that ScotWind options could be rapidly traded for large financial gains (sometimes referred to as 'flipping' or 'arbitrage'). Hence ScotWind change of control conditions will be considered in the review.

Current ScotWind conditions do offer some protections on change of control, with our approval being required. However, under current conditions, this might be difficult to withhold if the prospects for successful development had not demonstrably diminished as a result of a proposed change of control or divestment of interest. Current change of control conditions have no provisions for any financial payment to Crown Estate Scotland.

Through the development cycle, divestment of interest, potentially leading to change of control is an established feature of the route to market, with sites changing hands entirely as value is added, or equity stakes being secured by third parties. This is not a bad thing and is important for securing the scale of project finance and risk management required to achieve a successful development. It is not straightforward to distinguish this normal process of project development from 'profiteering'.

The more the approach to option fees captures the market willingness to pay, the less of a political issue change of control is likely to be.

d. Treatment of option fees

There is one difference between The Crown Estate Round 4 approach and our ScotWind approach. Round 4 requires annual payments during the option period, whilst ScotWind currently requires a single payment. Option income is revenue and hence passed to the Treasury / Scottish Consolidated Fund.

We have taken legal advice on this matter, which indicates that we should treat option payments, either up front or annual, as revenue. This means that this income will pass to the Scottish Consolidated Fund. (This legal opinion will also require a review of Crown Estate Scotland's historical treatment of option fees and will impact on capital raising for the Investment Strategy).

We are aware of a wider discussion going on in Scottish Government, including with the Scottish Futures Trust and the Scottish National Investment Bank to inform Ministers' views on ways in which ScotWind option revenue income might be used, for example to stimulate supply chain development.

It may be possible to design the hybrid option described earlier to provide both revenue from option fees that would pass into the Scottish Consolidated Fund and a capital income at step through to lease.

e. Supply Chain Development Statement

The Chief Executive, along with Scottish Government and Cabinet Secretary Fiona Hyslop were recently giving evidence to a Parliamentary Committee inquiry on 'BiFab, the offshore wind sector and Scottish supply chain'. Crown Estate Scotland involvement was focused on the Supply Chain Development Statement (SCDS). As a result, Scottish Ministers wish to include SCDS contractual remedies in scope, particularly the SCDS fulfilment threshold that would lead to a termination event.

5. Financial

The level of the Round 4 results is significant, including at the level of the overall Scottish Government budget, as well as significantly greater than the current valuation of the Scottish Crown Estate and the budgets of Scotland's Enterprise agencies. Decisions taken as a result of this review will therefore be of national significance and likely to feature in debates and campaigning on public finance over the coming months.

6. Sustainability

The objective of the review includes reference to Scotland's net zero targets, which are an important policy driver for a successful and timely ScotWind outcome.

7. Legal implications

Legal challenge to the delay of ScotWind was considered prior to the announcement. Clauses in the ScotWind application pack led to the conclusion that the risk of successful challenge was tolerable.

Any change to the ScotWind option structure will be unwelcome to most applicants and is likely to create a context that makes legal challenge more likely. The review has a legal workstream, working closely with Anderson Strathern, as the legal implications of outputs, recommendations decisions, scheme rules and communications will need to be carefully scrutinised and considered.

If the options structure is changed substantially, there may be the possibility of pressure to re-open for new registrations.

8. Risk

There are significant risks associated with Scotland's response to the Round 4 announcement. A decision not to review would have raised major accountability and reputational risks and would likely have resulted in Ministerial Direction.

The decision to delay ScotWind carries the risk of legal challenge, and reputational risks. These have been actively managed in close coordination with Scottish Ministers. It currently appears that stakeholders have decided not to contest the case for review in the light of the extraordinary Round 4 results.

There is a significant risk of failure to conclude the review by the stated deadline. Internally, this is being mitigated by good project management and early actions to frame the review and secure consultancy advice. We have established close liaison with Scottish Government to communicate the importance of setting a tight scope and the risks of 'mission creep'. Scottish Government colleagues are currently seeking engagement with Scottish Ministers to ensure Scottish Ministers understand what can and cannot be achieved within the timeframe.

There are substantial legal, financial, accountability and reputational risks associated with any decision to change the ScotWind option structure. Removing or significantly lifting the cap on option fee structures increases the risk of legal and reputational challenge from developers. Status quo or minor changes increase the reputational risks from political and wider stakeholders. These risks will be considered in the review and through engagement with Board, Scottish Government and Scottish Ministers. A relaunch handling plan will be required to manage these risks.

Linked to the above risks flowing from sharper changes to option structure, there's potential risk questions over the legitimacy of Crown Estate Scotland being responsible for allocating seabed rights for Offshore Wind. The Crown Estate is already subject to comment on this point – generating decades-long cost of electricity uplift to the market and end consumers as a side-effect of their unmoderated commercial remit is being identified as evidence that a body with a commercial remit should not have key role in decarbonisation pathway.

In the longer term, there is a risk that over-commitment to option fees jeopardises the generation of a strong development pipeline and the attendant supply chain and environmental benefits. Given changes in the market, these risks are uncertain. Advice will be given to Ministers on this aspect as part of the decision process.

In relation to our Risk Management Policy, Financial, Investment and Reputational risks are rated 'extreme' and People risk is rated 'major'.

9. People considerations

The E&I team, in particular, have been over stretched for some time. This new requirement further adds to that pressure. This is being mitigated by clear allocation of workstreams and drawing in capacity from other parts of the business, including to coordinate the project, to re-engage consultants and to manage procurement of bid assessment services. Recruitment of additional development manager capacity is underway, and a further review of future E&I capacity needs will be undertaken in the light of recent developments. It has been made clear to Scottish Government that there is no capacity to manage further work elements.

The Board may wish to express their appreciation of the exceptional dedication, hard work and commitment by the E&I team that has brought ScotWind to this point. This has included the significant testing and changes that have come, for example, from the Board commission to explore reduced rental arrangements for public benefits, from the introduction of a major and ground-breaking supply chain development statement process, and from scrutiny and political engagement around the Economy, Energy and Fair Work Committee.

10. Reputational / PR implications

The rating of reputation impact is 'extreme'. This has been considered in the risk section. A relaunch handling plan will be prepared to manage these risks, in close liaison with the Scottish Government and Scottish Ministers.

We are working to secure close political engagement through the rapid review. Prior to the announcement, the Chair had a meeting with Roseanna Cunningham, who understood the need for the review and indicated the desirability of reaching a conclusion before the pre-election period. On 18 February 2021 the Chair and several Crown Estate Scotland staff met with Paul Wheelhouse and Ben Macpherson along with a range of Scottish Government officials and SpAds. Mr Wheelhouse reiterated his view that Ministers made the right decision on ScotWind at the time and that this was about dealing with a new situation.

The two Ministers recognised the key aspects of the decision to be made, including the potential trade-off between shorter term financial gain and longer-term prospects. They understand that there is a lot of uncertainty about the market and that there is no definitive right answer. Work to form a decision matrix was agreed, focusing in on the main options and providing a summary risk analysis of each – something we would want to do anyway.



There was discussion on handling within the Cabinet, with at least four Cabinet Secretaries having a significant interest. It was suggested that we might engage with the weekly meeting of an Economy Ministers Group. There was agreement that there needs planning from the get-go on how to secure a collective decision by the Cabinet.

There was discussion about using the forthcoming SOWEC and EAB (Scottish Energy Advisory Board) meetings for Mr Wheelhouse to listen to stakeholder views. The review is also generating correspondence and Parliamentary Questions. In the main these suggest a degree of acceptance that the review needed to go ahead, the desirability of a speedy resolution, and indicators that bidders would be willing to pay more but with a strong preference for mechanism that move that towards the lease rather than up front.

Annex A: TCE Round 4 auction announcement

08 February 2021

Offshore Wind Leasing Round 4 signals major vote of confidence in the UK's green economy

In a major vote of confidence in the UK's green economy and net zero ambitions, The Crown Estate has today announced six proposed new offshore wind projects in the waters around England and Wales.

The six Round 4 projects together represent just under 8 GW of potential new offshore wind capacity with the opportunity to deliver clean electricity for more than seven million homes and create employment opportunities across the country.

The projects have been selected through a competitive seabed tender process and will now progress to environmental assessment known as a Habitats Regulations Assessment (HRA).

Together, Round 4 projects could:

- Support continued growth and investment in the UK offshore wind sector, which could employ as many as 60,000 people by 2030, up from approximately 11,000 today.^[i]
- Help the UK save approximately 12.5 million tonnes of CO2 emissions a year, equivalent to 19% of the nation's annual household emissions.^[ii]
- With 39 GW of offshore wind already in operation, construction and planning, projects emerging from Round 4 could deliver a 21% increase in the pipeline, a major contribution to supporting the Government's target of delivering 40GW by 2030, and beyond.^[iii]

Dan Labbad, Chief Executive of The Crown Estate, said: "Round 4 offers a major boost for the UK's green economy and subject to environmental assessments, these projects have the potential to create new jobs and deliver green and affordable energy to millions more homes.

"With a net zero goal, some of the best offshore wind resources in the world, and clear commitment from Government and industry to continue investing in the low carbon economy, the UK stands ready to play its part in addressing the global climate crisis.

"The task now is to work together across the sector, to coordinate the development we need offshore, in a way which is sensitive to the importance of biodiversity in our precious marine environment and brings new employment opportunities and growth to a range of communities across country."

Energy Minister, Anne-Marie Trevelyan said: "The UK is a world leader in offshore wind energy, with the Prime Minister's Ten Point Plan laying out a bold ambition to produce enough offshore wind to power every home in the UK.

"Energy delivered by the new offshore wind projects in The Crown Estate's latest leasing round will help power seven million homes, driving forward our commitments to eliminate the UK's contribution to carbon emissions by 2050, creating thousands of new jobs and ensuring Britain builds back greener."

Lesley Griffiths, Welsh Government Minister for Environment, Energy and Rural Affairs, said: "I am delighted to see an offshore wind project in the north Wales region progress to the next stage of The

Crown Estate's current offshore wind leasing auction round. I would like to thank all those involved for their efforts in reaching this stage of the process.

"I would also like to congratulate the successful bidder. We at Welsh Government, with our partners in the region, look forward to working alongside them. It is vital that Wales maximises from the benefits of hosting offshore wind projects as well as the infrastructure they require onshore.

"As noted by the Climate Change Committee (CCC) in December last year, Wales is on a credible pathway towards becoming a net-zero nation by 2050."

Through an open market process, successful bidders have committed an initial investment of £879m in option fee deposits. This signals a significant vote of confidence in the UK's world leading offshore wind sector and Government's commitment to grow the low carbon economy. Following the conclusion of the Round 4 process through the HRA, option fees will contribute to The Crown Estate's annual profits, 100% of which are paid to the Treasury for the benefit of the nation.

The projects and bidders that will progress to the next stage of Offshore Wind Leasing Round 4 are:

Project identifier	Bidding Area	Region/ location	Successful bidder	Proposed project capacity (MW)	Number of homes proposed size could power (approx.)	CO2 emissions reduction potential p.a. (tonnes)	Option fee deposit paid (exc. VAT)
1	Bidding Area 1 (Dogger Bank)	Off the Yorkshire Coast, North East of Scarborough	RWE Renewables	1500	1,394,000	2,344,176	£114,304,500
2	Bidding Area 1 (Dogger Bank)	Off the Yorkshire Coast, North East of Scarborough	RWE Renewables	1500	1,394,000	2,344,176	£133,350,000
3	Bidding Area 2 (Southern North Sea region, the eastern parts of the Wash and the East Anglia region)	Off the Lincolnshire Coast, East of the Humber Estuary	Green Investment Group - Total	1500	1,394,000	2,344,176	£124,573,500



4	Bidding Area 4 (North Wales region, the Irish Sea region, and the northern part of the Anglesey region)	Off the Northern Welsh Coast, North East of Anglesey	Consortium of EnBW and BP	1500	1,394,000	2,344,176	£231,000,000
5	Bidding Area 4 (North Wales region, the Irish Sea region, and the northern part of the Anglesey region)	Off the Lancashire Coast, West of Blackpool and South West of Morecambe Bay	Offshore Wind Limited, a Joint Venture between Cobra Instalaciones y Servicios, S.A. and Flotation Energy plc	480	446,000	750,136	£44,751,840
6	Bidding Area 4 (North Wales region, the Irish Sea region, and the northern part of the Anglesey region)	Off the coast of Barrow-In-Furness, West of Morecambe Bay	Consortium of EnBW and BP	1500	1,394,000	2,344,176	£231,000,000

Round 4 projects will now progress to the next stage of the process known as a Plan-Level HRA. This process assesses the potential impacts of Round 4 on the UK national network of protected areas covering its most valuable species and habitats. It is a legal requirement, which must be completed



before The Crown Estate can award seabed rights and is an important step in helping to preserve the UK's precious marine environment.

The HRA process is expected to conclude in Spring 2022. Subject to the outcome, developers would then be granted an Agreement for Lease by The Crown Estate and be able to progress projects through the planning process, in which stakeholders and local communities will have an opportunity to participate. The projects could begin to generate clean electricity by the end of the decade.

Annex B: Announcement of delay to ScotWind

ScotWind Leasing application timings extended

11 FEBRUARY 2021

Following this week's announcement of the result of The Crown Estate's offshore wind leasing auction for sites in waters around England and Wales, Crown Estate Scotland is reviewing the option structure for their ScotWind Leasing process. The decision has been taken with the support of Scottish Government Ministers.

The result of the review of the option structure for ScotWind Leasing is targeted to be completed by 24 March 2021. The deadline for applications to ScotWind Leasing will now be later than 31 March 2021. The updated Closing Date will be confirmed on completion of the review of the option structure.

The review will help ensure that the offshore wind leasing process attracts major green investment to Scotland by delivering long-term economic and net zero benefits through a competitive and sustainable pipeline of projects.

Amanda Bryan, Chair of Crown Estate Scotland, said: "The unprecedented outcome of The Crown Estate Round 4 process has, overnight, changed the market dynamics around offshore wind leasing, and could have significant implications for offshore wind development in Scotland. It is only right that we consider the implications of this new situation in relation to ScotWind Leasing.

"Our team will now work on the details of how these latest developments can be properly reflected in the ScotWind Leasing option structure, and we'll ensure our registered applicants, and the wider sector, continue to be kept engaged and informed."

Roseanna Cunningham MSP, the Cabinet Secretary for Environment, Climate Change and Land Reform, said:

"It is the Scottish Government's responsibility to secure a fair price for the sea bed sites being leased for offshore wind developments around Scotland and to make sure that the people of Scotland benefit fully from decisions taken in relation to the Scottish Crown Estate.

"In light of the significant changes that we are now seeing in the wider UK offshore wind market, Ministers have agreed with Crown Estate Scotland that it would be sensible to review our leasing process in order to fully consider the implications of recent auction outcome announcement by The Crown Estate UK for sites around England and Wales."

ScotWind Leasing was launched in June 2020 and is the first round of offshore wind leasing in Scottish waters for a decade.

It has the potential to enable companies at the cutting edge of offshore renewables to apply to build Scotland's new generation of offshore wind farms. These projects of the future have the potential to power every home in Scotland with green electricity, and help Scotland take a giant step towards getting to net zero carbon emissions by 2045.

Annex C: Rapid review proposed terms of reference

SCOTWIND LEASING RAPID REVIEW OF OPTION STRUCTURE

Objective

This Rapid Review has been established in the light of The Crown Estate Round 4 auction results.

ScotWind will play a key role in Scotland's clean, green economic recovery and in achieving net zero aspirations. The objective is that ScotWind provides the best possible opportunity to attract development to Scotland, leading to the successful completion of the largest number of projects feasible with the maximum possible benefits flowing to the Scottish supply chain, notwithstanding Scotland specific development challenges.

The objective for option receipts is that these should be maximised to reflect fair market value, but only to the point that the development and realisation of this pipeline is not jeopardised.

Timing

The review will be concluded and signed off by the Crown Estate Scotland (CES) Board and Scottish Ministers to allow the resumption of the ScotWind leasing process by March 24.

To meet this deadline the review scope is limited to aspects achievable within this time.

Scope

In-scope for this review:

- Consideration of adding a) additional higher price points for option fee bids, and what these should be and b) replacing price points with no pre-set cap.
- Ways to factor in variability between sites and / or whether there is even a need to include such variation
- Any other relevant new market considerations at this point such as Contracts for Difference (CfD) developments for floating wind.
- Any consequential considerations for the evaluation process.
- Any consequential considerations for the 'change of control' process (ie; rules governing the onward transfer of lease options by companies post-award.)
- Any considerations for single or annual option payments and treatment of revenues raised as capital or revenue.
- Any other consequential issues in relation to changes in ScotWind option structure.
- Supply Chain Development Statement (SCDS) termination threshold.
- Competition law implications given the fee structure comparison between R4 and ScotWind.



Annex D: Ministerial correspondence with SOWEC on the review

Minister for Energy, Connectivity and the Islands
Paul Wheelhouse MSP



Scottish Government
Riaghaltas na h-Alba
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Mr Colin Maciver
PMO, SOWEC
Email: colin.maciver@crownestatescotland.com

15 February 2021

Dear Colin

You will, by now, be aware of Crown Estate Scotland's decision to review the option structure for the ScotWind Leasing process – a decision that has been taken with Ministers' support – and I am now writing to you to set out the rationale for this decision.

Earlier this week, The Crown Estate announced the results of their offshore wind leasing auction for sites located in waters around England and Wales. This auction saw bids that were dramatically higher than expected with the potential for The Crown Estate to raise £8.8 billion in revenue for HM Treasury over a ten year period. This represents a significant and material change in the market dynamics of offshore leasing both in England & Wales and Scotland, and could have implications for the development of Scottish offshore wind projects.

That is why Ministers have agreed with Crown Estate Scotland that a short pause in the current application process is necessary to allow us to fully consider the implications of The Crown Estate's Leasing round. I understand that Crown Estate Scotland will now conduct a prompt review of the option structure with a view to delivering a process that is attractive to investors and delivers true value to communities across Scotland, taking into account issues such as transmission charges and other locational factors that we have discussed in SOWEC and other fora.

I anticipate that you will have some questions around what the outcome of this review may be and though it would be inappropriate for me to prejudge its outcome, I remain of the view that ScotWind should be used as a vehicle to promote economic development and sustainable employment in Scotland, while delivering on our net zero and green recovery targets. The Supply Chain Development Statements are the linchpin of ensuring this is achieved through ScotWind and I am pleased that applicants have already begun to engage with the domestic supply chain to identify opportunities for collaboration and growth. This is to be welcomed and I would encourage ScotWind applicants to continue this engagement while Crown Estate Scotland completes their review.

Of course, it is without doubt that this decision will have created some trepidation for those applicants who were preparing bids for ScotWind. However, I would like to take the opportunity to reaffirm the Scottish Government's commitment to the success of this leasing round, and assure this Council that my officials and I will work tirelessly with Crown Estate Scotland to ensure that this review is concluded by the targeted completion date of 24 March 2021.

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

St Andrew's House, Regent Road, Edinburgh EH1 3DG
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I remain confident that, in line with SOWEC's vision, ScotWind will enable an offshore wind sector which plays to Scotland's strengths and delivers jobs, investment, and export opportunities for businesses and communities across Scotland.

I look forward to discussing this and other vital issues at the next meeting of SOWEC later this month.

Kindest regards

Kind regards

PAUL WHEELHOUSE





Annex E: preliminary decision structure

1. Fee structure/evaluation consequentials
 - a. Current cap
 - b. Intermediate increase in cap (£10s of ks)
 - c. High increase in cap (£100s of ks)
 - d. No cap
 - e. Option fee with open market step-through premium
 - f. *(Category caps*
 - i. *By SMP area (assimilating a number of factors)*
 - ii. *By water depth (proxy for technology))**
- * this theoretical and complex group of options is seen as problematic and hence unlikely to be viable.*
2. Change of control? (partially coupled with 1: less of an issue with less constrained fee structure)
 - a. No change
 - b. Strengthen non-financial parameters
 - c. Strengthen non-financial parameters and introduce financial parameters
3. Type of payment (Partially coupled with 1. Aspects include: annual/single payment, desired revenue/capital balance, satisfying legal and accounting rules).
 - a. Single revenue payment
 - b. Annual revenue payment
 - c. Annual revenue payment with step-through capital payment
4. SCDS
 - a. Termination at 10%
 - b. Termination at 25%
 - c. Termination at 50%