

Agenda
Twenty-Second Meeting
Crown Estate Scotland Board
Video Conference Call
30 September 2020
8.30am – 12.30pm

8.30am	1. Standing Items		
	1.1	Welcome and Declarations of Interest (Apologies – Richard, Martha)	
	1.2	Approval of Minutes of Meetings held 29 July 2020	Attached
	1.3	Matters Arising and Action Trackers	Attached
	+ 1.4	Papers considered out of meeting	BD(2020)22.1
8.50am	2. Board Committees		
	* 2.1	Investment Committee Minutes (11 August)	Attached
	+ 2.2	Investment Strategy	BD(2020)22.2
9.05am	3. Business Management		
	3.1	Chief Executive's Report (Simon)	BD(2020)22.3
9.15am	3.2	Crown Estate Scotland Financial Structures (Alastair)	BD(2020)22.4
9.45am	3.3	IT Transformation	BD(2020)22.5
10.10am	3.4	New Office Project – update (Alastair)	BD(2020)22.6
10.30am	3.5	Covid-19 Impacts and Reflections (Simon)	BD(2020)22.7
11.15am 11.40am 12.10pm	4. Strategy		
	4.1	Climate Change Plan	Presentation
	4.2	Communication and Engagement Strategy (Esther)	Presentation
	4.3	Workforce Planning Update (Esther)	Presentation
12.20pm	5. Any Other Business		
	6. Date of Next Meeting		
		25 November 2020	

*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-Second Board Meeting	BD(2020)22
Meeting date	30 September 2020	
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, 30 September 2020		

Present:

Amanda Bryan	Chair
Dr Michael Foxley	
Liz Leonard	
Jean Lindsay	
Andrew MacDonald	
Robert Mackenzie	
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)

By invitation:

Jonathan Shenton	Senior IT Manager (for Minute item 3.3)
Annie Breaden	Head of Policy (for Minute item 4.1)
Campbell Gerrard	Senior Manager – Policy and Planning (for Minute item 4.1)
Carol Anne Knight	Senior HR Manager (for Minute item 4.3)

1. Standing Items

1.1 Welcome and Apologies

The Chair welcomed everyone to the meeting and advised that apologies had been received in advance from Richard Morris and from Martha Walsh (the shadowing observer). 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 any of the items on the Agenda.

1.3 Approval of Minutes of Meeting held on 29 July 2020

The Minutes of the meeting held on 29 July 2020 were **approved**.

1.4 Matters Arising and Action Tracker

Noted that:

- (a) the Chief Executive would lead a session at the November Board meeting relating to the Value Project, which would look at the financial and wider value of the finalised asset profiles and allow the Board to discuss these. This would be in addition to the training session in the use of the tools which would be arranged for members once travel and meeting restrictions had eased.
- (b) Graham Black had retired from Marine Scotland and that Annabel Turpie had succeeded him. The Chief Executive had attended an introductory meeting with Ms Turpie and the Chair was scheduled to meet her on 7 October.
- (c) actions 15/3 – 15/6 (relating to draft strategies for aquaculture and E&I) had now been closed. Alister Steele asked if these would be reviewed given that they had been written before Covid-19 and the likely hard Brexit. It was noted that the strategies had been written to align with the Corporate Plan and that the fundamental aspects had not changed. The strategies would be refreshed alongside the Corporate Plan. Michael Foxley suggested that the position be kept under review as there was likely to be significant change to the finfish sector post-Brexit.
- (d) action 20/7, which was for the Director of Property to provide a note on the transitional arrangements following the appointment of Managing Agents, would not be provided until after the appointments had been made and would be available for the November Board meeting.
- (e) the Board requested clarification on the process for the completion of the appointments and were advised that the evaluation of tenders was currently underway and that a shortlist of bidders would be interviewed in mid-October. The intention was to brief the Board at the November meeting and to issue contract letters in early December.

Agreed that:

- (a) given the value of the contracts, the Board should approve the appointment of the Managing Agents on recommendation from the Executive Team.

Action: AW (22/1)

1.5 Papers considered out of meeting (paper (BD(2020)22.1)

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

2. Board Committees

2.1 Investment Committee Meeting – 11 August 2020

Noted that:

- (a) the Committee had received the finalised Investment Strategy which was also submitted to the Board for noting during today's meeting (BD(2020)22.2) and approved it.
- (b) the capital tracker was reviewed by the Committee and they received re-assurance that although there had been slippage in capital expenditure on works identified by the condition survey there would be no major impact on the completion of the works.
- (c) a market update report had been received from the Commercial Manager providing further information to the Committee on the potential economic effects of Covid-19 on the valuation of Scottish Crown Estate assets. The change in valuation of the urban property asset was notable, and the Committee noted that an options appraisal would be carried out to inform the future plans for this asset.
- (d) a paper setting out proposals for capital challenge funds was presented by the Director of Property. The Committee approved the general approach proposed and asked for a worked example of the application process before the final proposal was submitted to the Committee for approval.
- (e) the Committee receive, as a standing item, the Built Development report. The Committee had welcomed the rigour which had been introduced to the process of developing a strategic outline business case before these were presented to the Committee.
- (f) a discussion had been held on the next stages for the Montrose development and the Committee had noted the proposed three-step process which was proposed. To support the planned development a project manager would be recruited, initially using a consultant. A review of the existing proposals was being undertaken as market demand had changed and there were aspects of the proposals which Crown Estate Scotland did not want to take forward.
- (g) the Director of Property had held a recent meeting with officials from Angus Council who had been positive about the review being undertaken and who had raised no issues about future of the Tay City Deal.
- (h) the Committee received an update on proposals for a dark skies observatory at Glenlivet and noted that discussions with potential partners were continuing.

Agreed that:

- (a) the market update report should be circulated to the whole Board for information.

Action: HH (22/2)

2.2 Investment Strategy (paper BD(2020)22.2)

Noted that:

- (a) in delivering the strategy there would be a separation of roles with an investment portfolio manager and business case manager being identified to provide support, oversight and quality assurance. These roles would sit in the Finance & Business Services team allowing a degree of separation from the development managers.
- (b) the Board were keen to ensure that focusing on delivering the strategy did not prevent new and innovative opportunities from being assessed. The development of new partnerships would encourage innovation and creativity as well as different ways of working. This would be considered further by the Board during discussions on horizon scanning and future strategy later in the year.

3. Business Management

3.1 Chief Executive's Report (paper BD(2020)22.3)

Noted that:

- (a) the Chief Executive wanted to draw members attention to the parts of the new Programme for Government which were relevant to the activity of the organisation, including an updated Offshore Wind Policy statement, support for CCUS and a blue economy action plan.
- (b) the HR team had launched a Wellbeing Matters programme earlier in the month and the staff response had been positive. The HR Advisor had arranged for a fruit and vegetable box with a note from the Chair and Chief Executive to be sent to all employees. Staff had appreciated receiving a physical symbol of the launch.
- (c) work in relation to equality and diversity was continuing, including looking at recruitment policy and processes and sourcing training for the Board and Executive Team. This was welcomed by members.
- (d) bids for funding through the Community Capacity Grants had already exceeded the amount available with the closing date for expressions of interest not until 8 October. There had not yet been any applications for Environmental Grants so the period for expressing interest had been extended until 30 October with a further round of publicity, which included writing directly to all Crown Estate Scotland tenants.
- (e) although it was possible to take money from one fund to use for the other there was no plan to do so at this stage and that a review would be carried out once the full process had been completed.
- (f) Michael Foxley asked if a copy of the application forms could be circulated to the Board.

Action: HH (22/3)

- (g) the UKWAS forestry audit had been completed over the whole estate with the focus this year being on the Applegirth estate.
- (h) the Chair had been drawn into some discussions regarding North Harris Trust and Harris Development Limited in relation to foreshore ownership and operation of leases. The issues were being worked through with the possibility that both matters would be referred to mediation.

3.2 Crown Estate Scotland Financial Structures (paper BD(2020)22.4)

Noted that:

- (a) a new approach to financial management structures and reporting was being developed to support an approach to presenting Crown Estate Scotland's activity and performance in line with the Corporate Plan. This was happening in parallel with the development of the reporting of asset management and performance.
- (b) the reports produced would support evidence-based decision-making, demonstrate that the right controls and governance structures were in place and allow different approaches to reporting for different purposes, for example, reports to Board or reports for the asset managers, but will be an important tool primarily for management analysis.
- (c) the paper contained examples of the sort of dashboards which could be produced. For inclusion in the paper they were presented as PDF documents. The actual dashboards were however interactive and "clickable", allowing users to bring up more information on particular aspects. Power BI has been used as the platform for the analytics and further work will be undertaken over coming months to identify the data sets which are required internally, including for the Investment Committee and Board, and externally. There would need to be some consultant input in order to finalise.
- (e) currently the asset list and asset codes have been uploaded along with the latest valuation and income per asset for the last year. It was intended that there would be an annual data set with different ways to analyse performance, for example, geographically or by income. An important aspect would be to look forward and use the information to assess impact of actions, such as investment in an asset, would have on the portfolio.
- (f) the Board raised the question of overheads and demonstration of Value for Money and how these could be benchmarked with other organisations across the public sector. Jean Lindsay suggested that the Executive Team look at information published by the Chartered Institute of Public Finance & Accountancy to see if comparatives could be identified. It was also noted that business processes and technology were being looked at to improve efficiency, which Andrew Macdonald commented was an important part of the organisational delivery.
- (g) the Chief Executive confirmed that close monitoring of running costs, which were rising across the organisation, was being undertaken with administration and staff costs being reported to the Audit & Risk Committee. The cost base would be apportioned across the four Crown Estate Scotland roles creating a fundamentally different way of looking at costs and value. This would allow appropriate efficiency benchmarking for different types of business activity.

- (h) Liz Leonard praised the level of granularity but asked that the Executive Team ensure that all staff using the new model had the necessary training to read & use such detailed financial modelling effectively.
- (i) Jean Lindsay queried whether the organisation had 100% VAT recovery and was advised that there was a partial exemption methodology in use. She asked that the Executive Team take that into account when allocating costs across the different roles as it would be complicated.
- (j) the Chair asked if this reporting would be available for the current financial year in order to provide consistent reporting across the Corporate Plan period and was advised that it would be fully available for the next financial year, but that preliminary analyses had been undertaken using historic data, which would be presented at the November Board meeting.
- (k) the format of the Annual Report was being reviewed to afford opportunity to represent the information about asset performance and the value which was being added by the organisation's activities.
- (l) the Scottish Government had published the Scottish Natural Capital Accounts in March and the Chair asked whether this was something which be brought into this work or whether the focus was on wider value. The Value Project had focused on wider value, based on the categories listed in the Scottish Crown Estate Act 2019, but the organisation, through the Director of Property, remained engaged in natural capital assessment. Recent conversations had started to look at how natural capital thinking could be brought together with the Value Project going forward.

Agreed that:

- (a) the Board welcomed the developments which reflected much of what had been asked for on financial and asset management for some time.
- (b) the Chair would consider the cycle of Board meetings and how these could potentially better align with quarterly reporting, particularly the end of quarter two and quarter three.

Action: AB (22/4)

The Senior IT Manager was welcomed to the meeting.

3.3 IT Transformation (paper BD(2020)22.5)

The Senior IT Manager gave a short presentation to the Board.

Noted that:

- (a) Covid-19 had meant that a lot of what had been planned for IT in the organisation had required to be fast-tracked, with an immediate move in March 2020 to the use of Microsoft Teams and deployment of upgrades and new equipment, such as headsets, to staff to facilitate home-working.

- (b) there were other projects, identified as part of an IT hardware review carried out in 2019, which have also been progressed during the lockdown period. These include a document and record storage project, migrating Crown Estate Scotland records to a new document management system (SharePoint); an IT Governance and Security Project; a Server Infrastructure Project; and a Property Management System Project.
 - (c) preparatory work for the Edinburgh office move was an integral part of these projects as well as being a project in its own right. Work to upgrade the conferencing facilities in Bells Brae had been carried out while the office was closed as a proof of concept for use in the new office. The analysis of the use of desks carried out before lockdown had informed the specification for the equipment to be provided on each desk in the new office. The desks would all have the same equipment which would mean that some current IT assets would require to be replaced.
 - (d) the Senior IT Manager had also been tasked with assisting the property management being brought in house. It had been identified that, an initial, possibly interim, solution was to novate the Propman system licences across from Bidwells. This would be relatively easy for Bidwells but Savills and Wardell Armstrong did not use that system and their data would require a data transformation project via Microsoft Excel.
 - (e) to date the projects undertaken had collectively come in within or under budget, although the costings for property management systems, which would have a capital element, were still being finalised.
 - (f) future plans included business process improvements, including a file clear-up following the data migration projects, removing obsolete documentation from the system; a review of licencing and IT support; and further service improvements.
 - (g) the Board had questions on cyber security and whether there was a cyber security policy which staff were required to adhere to. The Crown Estate Scotland approach was to weave cyber security into all other policies, not have a separate policy. The approach was that cyber security was integral to the way people worked and not a bolt-on activity.
 - (h) working from home created an increased security risk but mitigations had been deployed and a further control to address the risks from internet browsing was being rolled out in early October. Regular reminders were issued to staff about cyber risks.
 - (h) Liz Leonard raised a query about the security of the GIS portal and it was agreed that the Senior IT Manager would email her separately after the meeting about this.
- Action: AM(JS) (22/5)**
- (i) Jean Lindsay expressed a concern that the Cyber Essentials certification had expired but receive assurance that at all times the five technical controls were in place and the Crown Estate Scotland had since May 2020 held Cyber Essential Plus certification.
 - (j) disaster recovery testing was being planned and would be carried out without affecting the live environment.
 - (k) Andrew Macdonald queried why staff were provided with mobile phones made by Apple Inc. rather than android phones. The Senior IT Manager explained that the models used were not the most expensive models available and were equivalent in price to a number

of android brands however the iPhones were being used for the enhanced security they offered.

Agreed that:

- (a) in the short time since he had joined the organisation the Senior IT Manager had delivered significant improvements and helped facilitate the rapid switch to working from home and had demonstrated a considered thought process in project planning.

The Senior IT Manager was thanked for his presentation and his contribution to the meeting and left the meeting.

The Board adjourned for a break for ten minutes.

3.4 New Office Project (paper BD(2020)22.6)

Noted that:

- (a) agreement had been reached with the landlord of the new office to extend the rent-free period for a maximum period of six months whilst Covid-19 restrictions meant that the office could not be fully used. If the provisions were invoked, then the office would only be available for mail pick up and security checks.
- (b) once the missives for lease were concluded then the move would be communicated to stakeholders. A press release had been agreed by the sponsor team and letters to suppliers and tenants would be sent.
- (c) the layout was being finalised and incorporating the responses received during the consultation with staff. Although it was anticipated that more staff would look to work flexibility it was thought too early to start to discuss what staff wanted and that it would be more appropriate for detailed conversations to take place when the office could be brought into use.
- (d) the Executive Team had identified that there was value in creating a staff representative group to draw in views of staff (including those not members of PCS). PCS were supportive of this approach.

3.5 Covid-19 Impacts (paper BD(2020)22.7)

Noted that:

- (a) the pattern of impacts which had been reported to the Board previously was continuing with finances remaining robust. A schedule of payments for the 2018/19 net revenue surplus had been agreed with the Scottish Government.
- (b) following completion of a risk assessment, staff were being asked to arrange to go into the Edinburgh office to pack up their desks and collect any personal belongings in advance of the office move.
- (c) a review of the Covid-19 rent charging policy was in progress and it was anticipated that it would conclude that all rent payments should be collected as scheduled with some rent

reviews continuing to be deferred. The rent policy took account of relevant Scottish Government guidance.

- (d) a full report on progress against the 2020-21 Business Plan to the end of Q2 would be brought to the November Board meeting. The boundaries between Covid-19 impacts and other impacts were becoming harder to distinguish. Stakeholder responsiveness had been impacted and there was a limit to how investment relationships could be built in a virtual environment and how meaningful consultation could be undertaken.
- (e) following the re-opening of nurseries and schools, staff capacity was no longer as restricted as it had been earlier in the year. The Executive Team were continuing to monitor the amount of annual leave taken to try to avoid any issues with capacity at the end of the financial year. Jean Lindsay asked the Chief Executive to be mindful of the provisions in The Working Time (Coronavirus) (Amendment) Regulations 2020.
- (f) the Executive Team would be reviewing the reforecast at their meeting on 4 October and it was intended that this would be reported to the Audit & Risk Committee meeting on 27 October.

Agreed that:

- (a) the Board would welcome advance sight of the reforecast before it was submitted to the Audit & Risk Committee.

Action: HH (22/6)

4. Strategy

The Head of Policy and the Senior Manager – Policy and Planning joined the meeting.

4.1 Climate Change Plan

The Head of Policy presented the proposals for Crown Estate Scotland's climate change plan to the Board.

Noted that:

- (a) Crown Estate Scotland have been included in the list of public sector organisations who required to report annually to Scottish Government on emissions with the first reporting deadline for the organisation being November 2022. The organisation will also require to prepare a Climate Change Action Plan.
- (b) the intention is to use the Action Plan to set out the boundaries between direct and indirect emission sources as well as identify a set of key actions and commitments, for example the commitment to achieving zero direct emissions by 2040. Other planned activity will be to promote and share best practice with tenants and to look at internal policies such as green travel. The Action Plan would also showcase current activity.
- (c) climate change actions would be embedded in the development of the next corporate plan.

- (d) the challenges which had been identified so far included reliance on future technology and a need to travel for engagement activities. The Board commented that doing more across the Estate would increase emissions and that there were activities which were known would have direct emissions.
- (e) climate change had been identified as a separate investment criteria and would need to influence the selection of partnership projects and new tenancies .
- (f) guidance on what level, if any, of offsetting could be used was still to be issued by the Scottish Government.
- (g) resource, particularly to meet the reporting requirement, would be a challenge and there would be a need to use some consultancy to support this.
- (h) the policy team had engaged with other bodies and the Sustainable Government Network to identify best practice.
- (i) although the Board wanted an ambitious plan it was necessary to create a baseline and to clearly identify the boundaries between direct and indirect emissions across the complexity of the Estate in the first Action Plan. Setting this out clearly at the outset would allow future plans to have the ambition sought, which might include a shortening of timescales for delivery.
- (j) as a baseline year, 2020-21 was likely present additional challenges given the exceptional circumstances and that a resumption of organisational activity in 2021-22 could mean an increase in direct emissions. Thought would require to be given as to how this was going to be managed.

Agreed that:

- (a) the overall message from the Board was to be ambitious where possible.
- (b) the Chair and the Director of Corporate Operations would discuss the next steps in the preparation of the Action Plan and when it was appropriate to bring it back to the Board.

Action: AB/EB (22/7)

The Head of Policy was thanked for her presentation and she left the meeting with the Senior Manager – Policy and Planning.

4.2 Communications and Engagement Strategy

The Director of Corporate Operations made a presentation to the Board on the Communications and Engagement Strategy.

Noted that:

- (a) following the receipt of input from the Board at its last meeting, the Director of Corporate Operations had identified three draft outcomes and an objective for the Communications and Engagement Strategy. She had mapped these to some areas of

activity which were being presented to the Board to assess whether they fitted with members expectations.

- (b) factors such as the green recovery, which was a natural fit with Crown Estate Scotland's activity and the squeeze on public finances were incorporated into the Strategy along with a need for inclusive and credible language and action.
- (c) the three draft outcomes were firstly that the right partners were attracted to Crown Estate Scotland; secondly that the organisation has a reputation for public interest commercial delivery; and thirdly that it has a reputation for helping to release the potential of community projects. The draft objective ("to grow profile and support among target stakeholders by 2023, building our reputation for investing in property, natural resources and people"), although appearing simple, was multi-layered and contained a stretch target.
- (d) the tactics and tools to achieve the objectives would vary between activity and would be set out in the Action Plan which would sit behind the Strategy.
- (e) Liz Leonard and Martha Walsh had engaged extensively with the Director of Corporate Operations on the development of the Strategy. Liz Leonard posed a question to the other members about whether the four roles of the organisation should be explicitly referenced in the Strategy.
- (f) in the past the purpose of the Estate had been viewed by some as being solely to generate a return for the Treasury and it was important that the message about the transformation of management and the wider value to be delivered by the different roles was communicated. However, the roles would vary from project to project across the assets and would require to be referenced in different ways, in different conversations. Internally the roles give consistency of purpose.
- (g) the Strategy would be embedded across the organisation and would be clearly set out to the managing agents.
- (h) the Board queried if there had been thought given to the channels of communication required and whether the right stakeholders were being reached. There were new stakeholders to be reached as new activity, such as the development of the site in Montrose, got underway. Already that had started to generate new contacts and new conversations were happening.
- (i) the method of communication also required to be considered and there was a need for some upskilling in digital communication.

Agreed that:

- (a) the draft outcomes and objective did reflect the discussions which the Board had previously had and were consistent with the Corporate Plan. The Chair would discuss with the Director of Corporate Operations the timescale for bringing the Strategy back to the Board for approval, which may require to be out of meeting.

Action: AB/EB (22/8)

The Senior HR Manager joined the meeting.

4.3 Workforce Planning Update

The Director of Corporate Operation

Noted that:

- (a) at the Board meeting in July the first stage of the workforce planning had been presented and since then work had been undertaken on the second stage. This included assessing future requirements, with evolving needs and the output of the outsourced services review. Work was being carried out within teams to enhance efficiency and effectiveness. Development of the E&I team was continuing as was identification of opportunities to broaden some roles. PCS continued to be engaged as appropriate with this work.
- (b) second stage proposals are being prepared for consideration by the ET, with a particular focus on the Marine team where further investment in capacity to support development and investment activity is proposed.
- (d) the Board were not being asked to make decisions during this meeting as the Executive Team still required to consider the business cases for the additional roles and to finalise costs. The People Committee would be asked to provide feedback at its meeting in October prior to further engagement with the union and with staff.
- (e) Jean Lindsay asked if consideration had been given to offering opportunities to young people and was advised that there was currently one modern apprentice and an intern employed by the organisation with the recruitment of a graduate in aquaculture being proposed. Given the size of the organisation the Chief Executive felt that this was proportionate although other opportunities would be identified if appropriate.

Agreed that:

- (a) the Board would welcome further information on which posts were capitalised. This information will be presented as part of the budget process.

Action: AM (22/9)

The Senior HR Manager left the meeting.

5. Any Other Business

5.1 Board member recruitment

Noted that:

- (a) the Chair and the Governance Manager had submitted the request to Scottish Government for the recruitment of two Board members who would take up their appointment in May 2021. The skills being sought were renewables and investment / property development.
- (b) the request was framed by succession planning for the end of terms for Richard Morris, Andrew Macdonald and Alister Steele and by the internal audit report on Board skills.

5.2 Strategy discussion

Noted that:

- (a) Michael Foxley had requested that the Board hold a discussion in response to Covid-19 and lockdown. The Board would hold an informal discussion in the coming weeks and assess how such a strategic discussion could be held in the virtual environment.

6. Date of Next meeting

25 November 2020 (via Microsoft Teams)

Amanda Bryan
Chair, Crown Estate Scotland

Date

Board	Twenty Second Meeting	BD(2020)22
Meeting date	30 September 2020	
Paper title	Papers Considered Out of Meeting BD(2020)22.1	
Security classification	Unclassified	
Presented by	Helen Howden	
Author	Helen Howden	
Annexes	None	
Recommendation	The Board is invited to note the content of this paper	
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, which is for noting, records a decision made by the Board out of meeting.

Decisions

2. BD(2020)OOM9 – Option Period Extensions

A paper requesting Board approval of a policy approach for responding to requests from developers for extensions to offshore wind option agreements was sent to the Board by email on 14 August 2020.

In email discussion the following points were covered:

- (a) this is the first time that extension requests with merit have been received. The Scottish Territorial Water and Round 3 Offshore wind option agreements are approaching the end of their 10 year option periods, with developers having incurred significant expenditure in relation to the projects. A combination of challenges with these projects, including getting CfDs, was leading to the requests for extensions, with two already having been received.
- (b) that the ScotWind leasing round had its own clear assessment methodology and that any decision on extending existing sites would not influence the assessment of ScotWind applications from a party who had sought an extension.
- (c) the E&I team were not aware of the approach taken in other jurisdictions, including in the rest of the UK. The recommendation to the Board was based on what was thought best for the Scottish agreements. Consideration had been given as to whether this was novel and / or contentious (and so subject to Ministerial consent) however the conclusion had been

reached that the policy approach did not fall within the definition set out in the Framework Document.

- (d) the use of a clear framework was designed to evidence the decision-making process in the event of challenge. The framework could be updated in the future if there were environmental or other reasons to do so. Decisions on extension would be made by the Executive Team once assessment against the framework had been undertaken.
- (e) the period of extension was variable and would depend on the request received from developers. There would be no minimum period applied however if the E&I team thought that the period sought was not long enough this would be raised with the developer. The team did not consider it necessary to introduce caps on extensions as the requirement to pay upfront for the period of the extension would mean developers only seeking the period required. Testing of the requested period of extension would form part of the Prospects Test which incorporates a project and resourcing plan.
- (f) rather than agreeing to option extensions the sites could potentially be re-competed for as they were already in the current sectoral marine plan however the opportunity for a re-competed site to be consented may not be permanent as over time other sites have been consented or developed and the position has evolved.
- (g) agreement to extensions would not affect the approach in other areas of the business to the grant of options.
- (h) if granted an extension then developers would require to achieve at least one milestone a year but more could be considered depending on the specific project.
- (i) the wording in the Prospects Test ("reasonable level of confidence") had been included deliberately in order to provide sufficient flexibility to allow consideration of the characteristics of different projects within the framework.
- (j) while extending options could possibly be viewed negatively and contrary to the Corporate Plan intention of working with new partners, this policy sought to fulfil the duty to maintain and seek to enhance the value of the assets and the income arising from them. The ScotWind leasing round was designed to attract new entrants to submit applications.

The Chair recorded, in an email dated 21 August 2020, the Board's support for the recommended policy approach.

3. BD(2020)OOM10 – Impacts of Covid-19 update

A paper updating the Board on the impacts of Covid-19 on the organisation was circulated to members by email on 28 August 2020.

Board	Twenty Second Meeting	BD(2020)22
Meeting date	30 September 2020	
Paper title	Investment Strategy BD(2020)22.2	
Security classification		
Presented by	Simon Hodge	
Author	Simon Hodge	
Annexes	Annex A: Investment Strategy	
Recommendation	The Board is invited to note this paper.	
The Board secretary or chairman should be advised if the contents of this paper give rise to any conflict of interest		

Background

Attached at Annex A is the finalised Investment Strategy. The Investment Committee approved a previous version in August 2019 which was then used as the basis for a summarised Investment Strategy included in the Corporate Plan consultation.

Whilst the final Corporate Plan was published in April 2020, it has taken a little longer to conclude the major asset reclassification project required to align asset information to the asset use classes previously agreed by the Board and so to finalise the Investment Strategy as a separate document.

The Investment Committee approved the finalised Investment Strategy at its meeting on 11 August 2020.

Investment Strategy

The main changes in the finalised Investment Strategy from the previous version are:

- Updated presentation of valuation information using the new asset classification and including the March 2020 valuation.
- Removed prediction of overall asset performance given the difficulties of accurate forecasting in current circumstances.
- Updated section on capital release based at the March 2020 opening position and aligned with the latest decisions of the Investment Committee.
- Inclusion of a specific climate change investment criterion, in response to the Corporate plan consultation.
- Updated Managing Delivery annex to reflect the business case process we now have.

Board paper



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

- Inclusion of an annex with Corporate Plan extracts.

The revision has avoided updating beyond March 2020 as that would weaken the link with the Corporate Plan. Hence, things like the North Ayrshire MoU and the Montrose acquisition are not mentioned.

Annex A

CROWN ESTATE SCOTLAND INVESTMENT STRATEGY 2020-2023

BACKGROUND

Corporate directions

On 1 April 2020 Crown Estate Scotland published a new corporate plan for the period 2020-2023. The four Roles of Asset Manager, Investor, Enabler and Coordinator will be used in different combinations to advance the Plan. This Investment Strategy focuses on the Investor role. It assumes Crown Estate Scotland manages the current Scottish Crown Estate during the Strategy period. The Investment Strategy is summarised in the published Corporate Plan. Annex 1 gives relevant extracts from the published corporate plan.

The aim

The aim of the Crown Estate Scotland Investment Strategy is to help deliver the organisation's purpose to generate lasting value for Scotland.

This Investment Strategy covers the three-year period of the Corporate Plan with the delivery of the strategy reviewed as part of the annual Business Plan process.

CES operates within a unique legislative framework and approach to capital accounting. Capital is routinely released from the estate and reinvested to increase the value of the estate. To deliver our purpose and strategic objectives we are aiming to manage and increase the capital release and to re-invest in a broader range of assets.

Legislative context

Meeting this aim fulfils a duty in the Scottish Crown Estate Act 2019 that the manager 'must maintain and seek to enhance the value of the assets and the income arising from them'.

The Act also contains a balancing duty - in doing this the manager 'must act in the way best calculated to further the achievement of sustainable development in Scotland and seek to manage the assets in a way that is likely to contribute to the promotion or the improvement in Scotland of economic development, regeneration, social wellbeing, and environmental wellbeing'.

The Act provides a basis for achieving this balance - the manager may make a relevant transaction for consideration of less than market value (including for no consideration) if the manager is satisfied that the relevant transaction is likely to contribute to the promotion or the improvement in Scotland of economic development, regeneration, social wellbeing, environmental wellbeing, or sustainable development, having regard to the likely effect of the transaction on the value of the Scottish Crown Estate as a whole.

This Investment Strategy aims to achieve this balance both in relation to shaping the investment portfolio and assessing specific investment opportunities.

In addition, it is worth noting that the Scottish Government's Strategic Management Plan for the Scottish Crown Estate Objective 5 states that 'By 2025, the balance between activity related to management of coastal and marine assets is likely to have grown compared with the rural land assets, to reflect the new opportunities that can be realised, but the Scottish Crown Estate is likely to still include a significant amount of land and property assets'.

FINANCIAL OVERVIEW

Financial goals

This Investment Strategy does not cover all the assets on the Scottish Crown Estate but focuses on the release and reinvestment of capital resources over the period 2020-2023. The financial goals are i) to safeguard real capital value growth; ii) achieve ongoing capital release and iii) ensure there is a liquid capital reserve. Real capital growth means growth greater than the rate of inflation over the plan period. The aim will be to provide a sustained flow of liquid capital resource allowing further investment activity beyond the period of this Strategy.

Investment criteria will enable consideration of the trade-offs between financial performance and delivery of wider benefits.

A portfolio approach will be taken to this set of investment projects to manage the portfolio-level risk-reward profile, whilst also allowing for specific profiles to be set for specific sectors or projects. In order to meet portfolio financial requirements, lower return or risky investments yielding a high wider value contribution must be balanced by higher return and lower risk investments potentially offering a lower contribution to wider value.

Investment progress will be measured by committed expenditure through approved business cases. The profile of actual expenditure is likely to stretch beyond the plan period, depending on the nature and complexity of the project and the partnership. This will help alignment of investment cashflows with capital availability.

Annex 2 describes the approach to governance and management of the Investment Strategy. Investment criteria are at Annex 3.

Financial value growth

Crown Estate Scotland is required to 'maintain and seek to enhance the value of the assets and the income arising from them'. This Investment Strategy forms a part of our approach to meeting this high-level goal.

Crown Estate Scotland recently refined its assets classification to better reflect current and emerging business activity (Annex 4). The charts at Annex 5 give a breakdown of the March 2020 capital asset valuation. The table below shows asset value trends since CES formation aligned with the new classification.

£m	Valuation			
	Opening balance 31/03/2017	31/03/2018	31/03/2019	31/03/2020
Built Environment	27.06	28.42	27.90	24.37
Rural Land	110.72	112.17	111.45	109.59
Coastal	29.42	32.49	33.09	35.35
Marine	108.53	151.51	213.40	256.89
Grand Total	275.73	324.59	385.83	426.19

Any forecast of capital value trends over the Strategy period will be influenced by four main factors:

- Value change because of market conditions.
- Value change through leasing.
- Value change through acquisition and disposal.
- Value change through improvement and development.

A precautionary value forecast will not anticipate significant value growth from market conditions alone, indeed some built environment and rural land asset use classes have seen value declines in recent years. Most recently, Covid-related economic impacts are likely to be negative and potentially continue throughout the Investment Strategy period.

The growth in seabed valuation has dominated the value growth of the Scottish Crown Estate, driven by offshore windfarm sites moving through lease and construction. Further increases are expected, although this will depend on the progress of individual projects. Any uplift from the new ScotWind leading round is unlikely to be realised in the plan period, although option fees may result in cash capital income that will help build the investment fund.

The valuation of the coastal portfolio is expected to remain steady. Some value growth may be associated with investments through this strategy. Likewise, ongoing work to bring forward and add value to development sites will have some positive impact on valuation, albeit counterbalanced by built environment asset sales during the Investment Strategy period.

It should be noted that the valuation does not include capital cash held on account.

Capital Release

CES operates within a unique legislative framework and approach to capital accounting. Capital is routinely released from the estate and reinvested to increase the value of the estate. To deliver our purpose and strategic objectives we are aiming to manage and increase the capital release and to re-invest in a broader range of assets.

At 30 March 2020, CES had a capital cash reserve of £38.6m. Capital income for 2020/21 is budgeted at £13m. This includes sale of the Spey fishings, anticipated E&I capital receipts and routine capital receipts from dredging. This is currently being kept under review due to the Covid-19 situation.

The 9% transfer from net revenue profit is likely to be in excess of £3m over the Strategy period (2020-23). This will be used to fund capitalised salaries and other capitalised costs associated with commercial development of sectors and projects.

In line with our new statutory duties under the Scottish Crown Estate Act 2019, the CES Board has signalled the desire to be bold in setting an investment strategy, and keen to release capital for reinvestment in a way that creates more opportunity for adding value both financially and in wider public benefit delivery.

Crown Estate Scotland has consulted on the rural portfolio in 2019, recognising the need for continued investment, particularly in agricultural infrastructure, but also indicating that 'we will seek to ensure each type of asset we manage is financially sustainable and we act responsibly to ensure appropriate returns in line with the requirements of the Scottish Crown Estate Act'. This will require capital to be raised by sale of rural land assets.

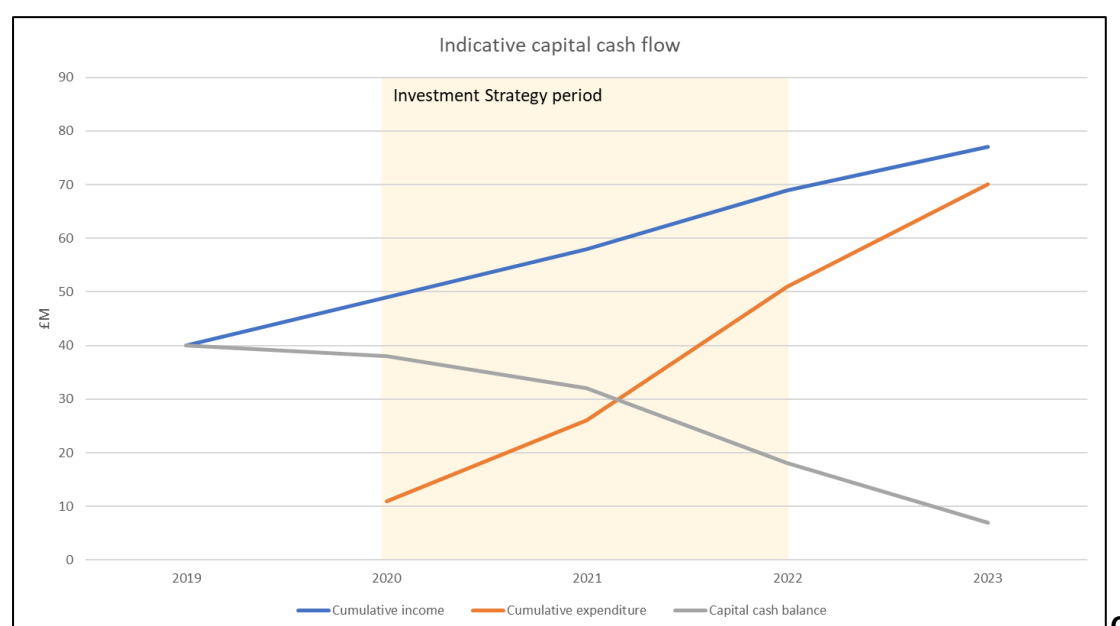
However, the approach to realising capital will focus primarily on lower performing built environment assets. This includes land earmarked for development as well as existing built assets that are not part of a farm unit. Some assets may warrant preliminary investment to enhance value prior to sale. For major projects, this may result in investment during the Strategy period and subsequent sale beyond the Strategy period.

The table below gives an indication of how the £70m investment fund may be secured:

Available capital cash	£31M	Net of £7m capital reserve.
Marine	£12M	Capital receipts from marine lease arrangements.
Coastal	£1M	Mainly capital receipts from dredging.
Rural land	£9m	Sales programme including agricultural, forestry, fishing and mineral assets.
Built Environment	£17m	Sale of built environment assets potentially including residential and commercial property and development land.
Investment fund for plan period	£70m	

The scale of current capital cash funds avoids the need for hasty asset sales to sustain short-term cash flow. This is important for the handling of both rural land and built environment sales. Rural land sales, particularly of farmland, will generate significant stakeholder interest and will need to be carefully handled. Work is required to determine a proposed mix of rural land assets for sale, and to establish the basis for identifying preferred farmland sales either on the basis of benefit delivery and/or desirability for tenants. Time is also required to optimise capital realisation with the built environment. This is likely to involve some preliminary investment to add value to development sites before sale.

The projected balance between capital income, expenditure and reserves over the strategy period is shown below.



Capital Cash Reserve

As a self-funded body, a liquid capital reserve is required to respond to short-term (<1 year) urgent capital requirements, although in extremis support can be sought from the Scottish Government. CES does carry insurance for storm damage to the rural estate, and for George Street. MoUs exist with the UK Government and Scottish Government which substantially protects Crown Estate Scotland from decommissioning liabilities in relation to oil and gas, and offshore and marine energy. Other sub-sea decommissioning liabilities are managed through financial standing assessments and parent company guarantees.

Four principle possible requirements for immediate liquid capital resources have been identified:

- Uninsured damage to property.
- Unanticipated landlord obligations or emergency capital works in existing property or development site.
- Exposure from business failure of tenant or partner – immediate clear-up or make-safe.
- Unexpected opportunity to acquire a priority asset.

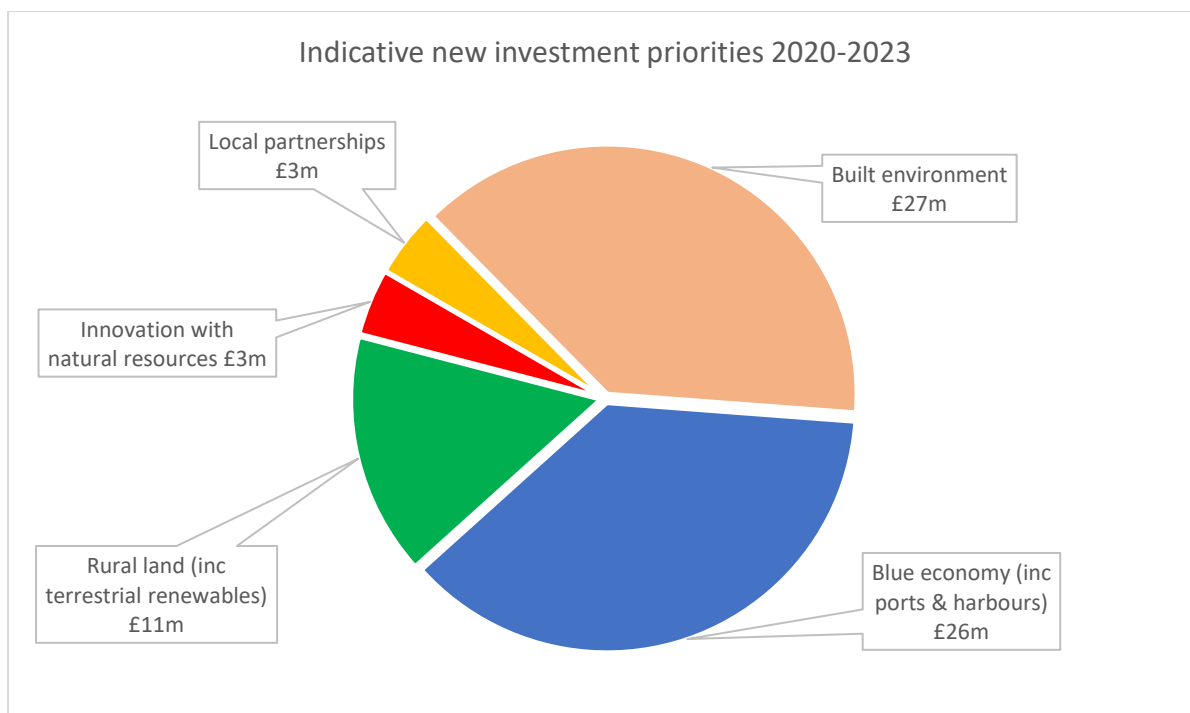
For each of these cases, £5M is considered to be a reasonable estimate of realistic maximum short-term exposure. This Strategy is based on retaining £7M of liquid capital, providing a degree of margin, although liquid capital will be significantly higher than that during the period of this plan due to the high level of current capital cash reserves. (By way of comparison, Scottish Canals retains a £1M capital cash reserve).

Beyond a one-year horizon, capital sales can be made to meet longer-term capital liabilities.

INVESTMENT PORTFOLIO

The investment portfolio will link to CES overarching corporate priorities but recognising that for some priorities there will be a particular focus for our investor role, whilst others will place more emphasis on asset manager, enabler and coordinator roles. The Investment Strategy places particular emphasis on investment in the blue economy and built environment reflecting two Corporate Plan themes where investment will play a key role. However, the two other Corporate Plan themes are also reflected through specific funds for innovating with natural resources and investing through local 'involving people' partnerships. Our investment priorities reflect our commitment to service the capital requirements of the farmed and forested estate, as well as our desire to explore the potential contribution to terrestrial renewables, which are yet to form a part of the Crown Estate Scotland's interests.

The chart below provides a broad basis for allocating investment resources to specific sectors and funds. This will be depicted in the Corporate Plan to demonstrate a degree of flexibility in these indicative allocations, to allow the organisation to respond to unforeseen opportunities.



Buildings and places

‘Develop built environment that strengthens communities and benefits businesses’ is one of the five objectives of the new Corporate Plan. Involvement in built development provides significant opportunities to generate value for Scotland both financially and through contributing to sustainable development.

Greater involvement in the development value chain provides potential to exert greater influence on what is developed and how built development contributes to wider sustainable development objectives. It also provides greater opportunity to secure increased capital value and capital release but involves taking greater risk. The optimum role for CES will be considered on a case by case basis.

There are two main focal points for this fund:

- Development land and built development on the existing Scottish Crown Estate.
- Development land and built development as part of a local coastal regeneration partnership.

We will also remain open to other opportunities to invest in development opportunities outside of these categories.

Built development on the existing Scottish Crown Estate

The existing rural and coastal estate offers significant opportunities for built development.

Opportunities are currently being reviewed to identify development potential on the rural landholdings. These opportunities range from small development sites through to significant landholdings that have long-term strategic value from change of use but that may not currently feature in local authority strategic development plans. On the Coastal estate Rhu Marina and its environs will be considered for development potential.

The urban property on George Street, Edinburgh requires refurbishment and an exercise will be undertaken in 2019-20 to appraise and compare the options for this. Other urban opportunities may

be considered where the fit with the criteria is strong, and where investment makes a significant contribution to meeting portfolio financial and risk profiles.

A business case analysis and appraisal of each development opportunity will be undertaken. With the resources available to Crown Estate Scotland there is the ability to take a holistic and longer-term approach when reviewing these opportunities, particularly where there are a number in proximity, such as on the estates at Fochabers and Whitehill. Considerations will include the contribution that development may make to sustainable development and the timescales over which these can be achieved. Resource requirements, including financing, will also be taken into account, as will the potential for partnership working and joint venturing.

The Crown Estate Scotland team and managing agents have a wealth of information relating to site and planning histories, local interests and landholders. Work is underway to capture this in preparation for the retendering of managing agents' contracts. Where deemed appropriate specialist advice will be sought, e.g. in relation to site conditions and testing, housing demand/local markets. This will be set within the context of strategic engagement with the planning authorities.

Our investment strategy recognises that some residential properties on the estate require investment for example in energy efficiency measures.

Co-investing as part of a regeneration partnership in priority coastal locations

There is a need to build Crown Estate Scotland's contribution to regeneration activities within Scotland given that it is specifically referenced in the Scottish Crown Estate Act 2019.

Initial research and engagement with a range of relevant public bodies has taken place both in relation to specific geographic areas and broader public investment activity. Much scoping work remains to be done and this part of the investment portfolio is likely to require considerable and careful project planning and development to reach point of financial investment decision. However, playing a catalyst role in significant place-based regeneration partnerships could release significant public benefit, as well as securing a return on capital to the extent that investments help create a virtuous circle of regeneration in target locations.

Crown Estate Scotland has no specific targets for the type of built investment supported, which could include residential, commercial or civic development. With the focus on the desired wider outcomes, all opportunities will be screened against the investment criteria to identify best fit.

Blue economy

The Corporate Plan objective to 'support the expansion of Scotland's blue economy, focussing on marine and coastal development' includes ports and harbours, offshore and marine renewables, marine and island infrastructure, sustainable aquaculture and approaches to optimising utilisation of the seabed.

Ports and harbours have been identified as key catalysts for economic development through trade, transport links, servicing the blue economy and provision of tourism services. This sector has been identified as a focus under the 'Building the Blue Economy' corporate plan theme. Given the close association between ports and harbours and the Scottish Crown Estate, we are working with government enterprise agencies, ports bodies and other stakeholders to identify targeted investments where we can help release economic potential and bring significant benefits to coastal communities.

Four distinct subsectors are emerging from initial scoping:

- Port infrastructure supporting the offshore wind sector.

- Deep water facilities for cruise liners and other sectors.
- Infrastructure supporting the boat-based tourism sector.
- Development land associated with ports and harbours.

Crown Estate Scotland is playing a leadership role in securing the benefits of offshore wind in Scotland. Development of shore-based facilities is a key part of sector infrastructure, and potentially a catalyst for sustaining local supply chain capability. This represents a potential investment opportunity for Crown Estate Scotland to increase the long-term economic value of such facilities to the local port and coastal community. Such facilities might include buildings, lay-down areas and appropriate berthing and loading facilities.

Crown Estate Scotland has been engaging with a number of ports and harbours about proposals to build deeper water facilities for berthing larger vessels. Offshore energy is a key focus, particularly with the launch of the ScotWind leasing round, but deep-water infrastructure can also service the cruise liner sector. The cruise liner trade has grown strongly in recent years, with ever larger ships wishing to offer cruises that include Scotland in the itinerary. Whilst the recent Covid crisis will impact on activity, deep-water facilities can assist recovery allowing direct access to shore for passengers and economic activity associated with shoreside servicing. A number of ports are combining cruise liner business proposals with opportunities to support the offshore and marine energy sectors, oil and gas decommissioning, and bulk cargo handling in order to build viable business cases for deep water facilities.

Ports and harbours serve as hubs for a range of industrial and business activities. Appropriate development of associated commercial premises and facilities can help unlock the wider economic potential of the area. Given past industrial land uses, this may also involve remediation of and development on vacant and derelict land.

Small boat-based tourism also provides an economic opportunity around Scotland's coasts. Scotland's Marine Tourism Strategy¹ is seeking to grow the value from £101M/year to £145M/year by 2020. Crown Estate Scotland has long been active in supporting investment in step-ashore facilities as well as marina development. Whilst currently impacted by the Covid crisis, there is good potential to deliver economic benefits from further expansion, particularly on the west coast of Scotland; creating a touring infrastructure that becomes ever more attractive to the international boat-based tourism market. This will require a strong commercial framework that provides confidence to Crown Estate Scotland of meeting financial criteria for investment.

The approach to investment will vary by sector. Major port investments are likely to be linked to regional growth deal priorities and will be guided by an evaluation study linked to the future needs of the offshore energy sector. A challenge investment fund approach will be taken to boat-based tourism, with an indicative allocation of £3m focused on the west coast of Scotland. The approach for associated development land is, however, more likely to be based on individual market or non-market opportunities.

Other aspects of the blue economy are characterised by the large scale of investment (such as fixed offshore wind) and/or technologies in the development stage (such as marine energy and local energy grids). Crown Estate Scotland will consider investment opportunities where a relatively small investment can act as a vital catalyst to assisting technologies achieve operational effectiveness.

¹ <https://scottishtourismalliance.co.uk/wp-content/uploads/2019/03/MarineInfrastructure.pdf>

Crown Estate Scotland's legal basis does bring constraints that require any investment to be linked to land or tangible assets on the land.

A key to unlocking the value of Scotland's blue economy is to achieve synergies between different marine sectors. Crown Estate Scotland will be seeking opportunities to achieve synergies between sectors such as renewable energy, oil and gas, tourism and aquaculture.

Rural land

We will continue to invest in our rural land holdings, prioritising projects that add most value (financial and in relation to sustainable development). The initial focus will be on infrastructure improvements for our farming tenants and rural business partners, including items identified in the condition survey. We will seek opportunities to invest in woodland improvement and creation where this makes best use of land.

Crown Estate Scotland will consider active investment support in terrestrial renewable energy towards achievement of Scotland's Climate Change Plan which is expected to be refreshed early 2020 to align with the proposed target of net zero GHG emissions by 2045. We will look at how to unlock investment potential as an investment partner with energy developers, tenants and communities. A resource survey of the current estate identified low potential for hydro, but higher potential for wind and solar PV, albeit recognising that identifying financially viable opportunities may be challenging. There may be other renewables investment opportunities beyond the current estate, although the relatively small scale of capital resources will limit the type of scheme we might become involved with.

We will also remain open to rural land acquisition and opportunities beyond the current estate that make a strong contribution to Crown Estate Scotland objectives.

Detailed investment directions will be informed by the Rural Land Framework published as part of the Corporate Plan.

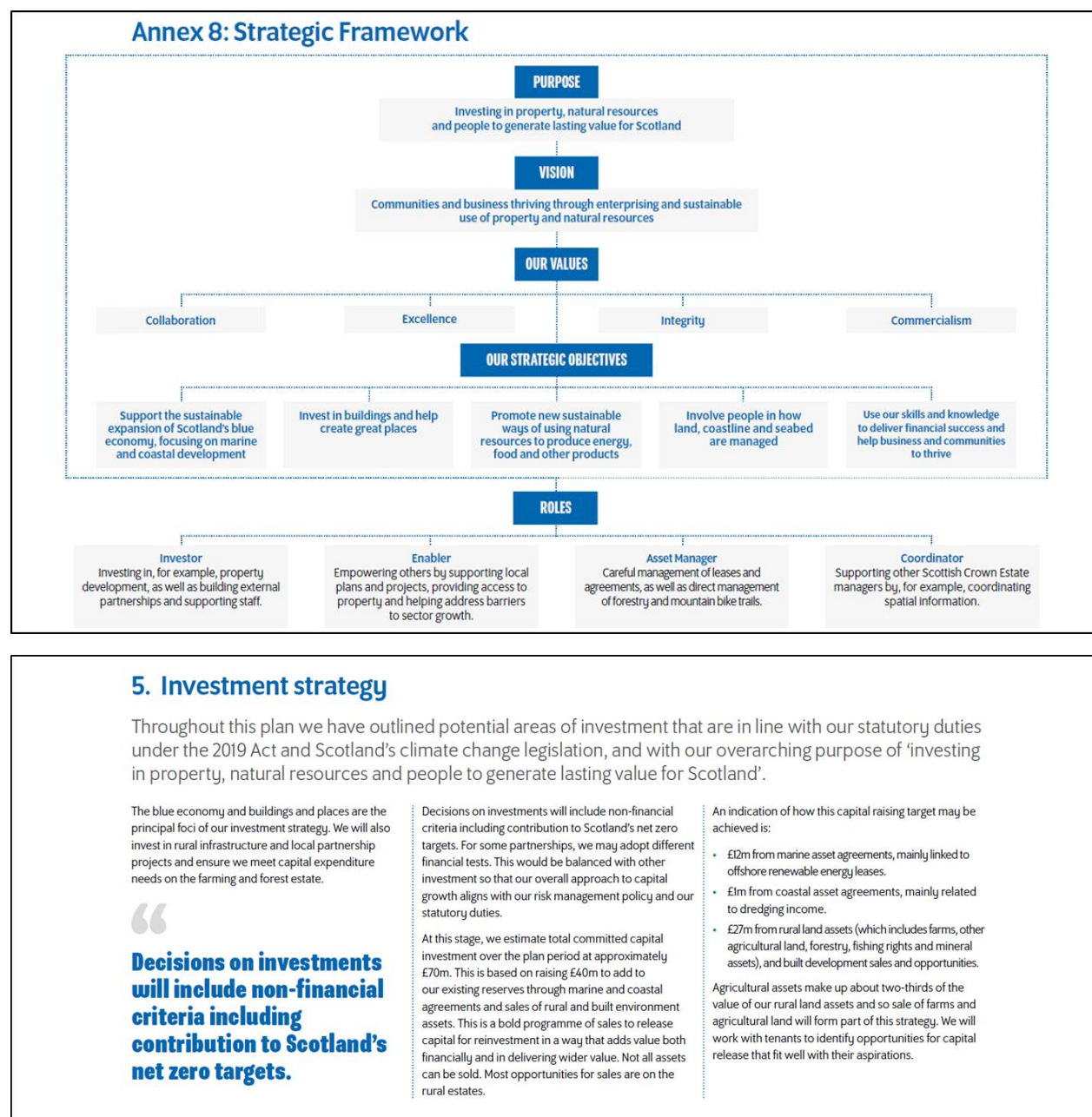
Natural resources and involving people

The investment portfolio includes the establishment of a further two smaller challenge investment funds (in addition to the challenge the boat-based tourism investment challenge fund) to stimulate innovation with natural resources and renewable energy, and to enable co-investment with local communities and bodies. Less demanding financial tests may be set for these funds to support projects with high potential for wider benefit delivery.

Scotland's primary industries, including agriculture and aquaculture, face a time of unprecedented change. We will identify opportunities to co-invest in projects for sustainable use of **natural resources**, adapting to economic, social and environmental change and contributing to a sustainable future. We will engage with stakeholders on the formation of an investment challenge fund that will open up the opportunity for proposals to as wide a range of tenants and partners as possible.

We will also identify a capital budget to invest in partnerships **involving people**, for example with community development trusts or local authorities, that make a meaningful contribution to local sustainable economic development linked to the Scottish Crown Estate whilst also meeting our statutory financial duties. Again, we will engage with stakeholders on the formation of an investment challenge fund that will open up the opportunity for proposals to as wide a range of tenants, communities and partners as possible.

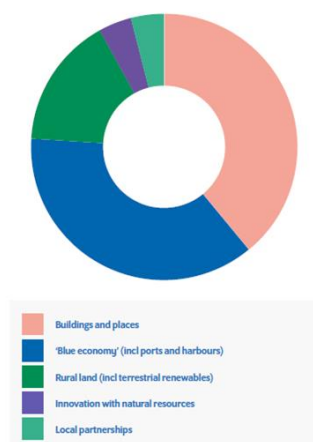
Annex 1: Extracts from the Crown Estate Scotland Corporate Plan 2020-2023



5.1 Investment priorities

Below we indicate how that £70m may be apportioned between five different priorities. We will include further breakdowns in our annual business plans.

Indicative investment priorities
(based on £70m capital investment fund)



Built environment is a focus because it provides significant opportunities to generate value for Scotland both financially and through contributing to sustainable development and inclusive growth. Development opportunities are being sought on the existing Scottish Crown Estate, but we will also look more widely at where our investments can best make a positive contribution, particularly in regeneration in coastal areas.

Crown Estate Scotland supports the Place Principle⁵. The Place Principle is intended to provide a collective focus to support inclusive economic growth and create places which are both successful and sustainable. We recognise that to make a meaningful difference, we will need to focus our capital investment in just a few priority areas. We are open to what types of development are needed to unlock potential in these areas.

We will work with local authorities and other potential partners to identify priority locations for investment and the types of development that can best meet our financial, sustainable development and regeneration objectives. Where appropriate, we will consider development of vacant and derelict land.

Ports and harbours are catalysts for economic development that then bring significant benefits to communities. We will work with enterprise agencies, port authorities and others to identify targeted investments.

Four distinct subsectors are emerging from initial scoping:

- Port infrastructure supporting the offshore wind sector;
- Deep water facilities for cruise liners and other sectors;
- Infrastructure supporting boat-based tourism; and

- Development land associated with ports and harbours.
- Other blue economy investments may include offshore renewables.

We will continue to invest in our rural land holdings, prioritising projects that add most value. The initial focus will be on infrastructure improvements for our farming tenants and rural business partners, including items identified in the 2018-19 condition survey. We will seek opportunities to invest in woodland creation where this makes best use of land. We also see potential in terrestrial renewable energy and may partner with energy developers, tenants and communities, to help to tackle climate change.

Scotland's primary industries, including agriculture and aquaculture, face a time of unprecedented change. We will identify opportunities to co-invest in projects that innovate with natural resources to create a sustainable future. We will engage with stakeholders to design an investment challenge fund open to as wide a range of tenants and partners as possible.

We will also identify a capital budget for co-investing through local partnerships with, for example, community development trusts or local authorities to make a meaningful contribution to sustainable development linked to the Scottish Crown Estate.

Investment criteria reflects our duties to deliver revenue and capital value increase as well as promote sustainable development.

⁵ See <https://www.gov.scot/publications/place-principle-introduction>

Table 10: Investment criteria

STRATEGIC	VALUE	COMMERCIAL	FINANCIAL	MANAGEMENT
Alignment with Corporate Plan	Economic contribution	Strength of Business Plan	Threshold IRR	Project complexity
National / regional contribution	Community / social wellbeing	Leverage (catalyst)	Discounted payback period	Operational fit
Stakeholder support	Regeneration	Partners' track record	Capital value growth	Right scale
	Environmental sustainability	Financial readiness	Set up cost and management overhead	Potential liabilities
	Climate change (adaptation & mitigation)	Security and ranking	Capital exit	State aids compliance

5.2 Scoping and decision processes

This investment strategy signals a step change for Crown Estate Scotland in terms of both approach and scale. Four broad stages may be involved for non-routine investments.

Crown Estate Scotland is developing new processes for operational decision-making. Capital investments and major asset sales will be amongst the most substantial decisions and will therefore drive how we design these processes.

Business cases will be based on the Treasury Green Book '5 case model', recommended for use by the Scottish Public Finance Manual (SPFM). Each 'case' is interconnected, but distinct.

The full business case should enable the organisation and its stakeholders to ascertain that proposals:

- Are supported by a robust rationale – the Strategic Case;
- Deliver value for money and Best Value – the Economic Case (referred to in Table 10 as the Value Case);
- Are commercially viable – the Commercial Case;
- Are financially affordable – the Financial Case; and
- Can be delivered successfully – the Management Case.

Table 11: Stages for non-routine investments

STAGE	SCHEME OR 'CALL' APPROACH	INDIVIDUAL INVESTMENT APPROACH
1	Design scheme with stakeholder engagement	Determine investment priorities for each sector based on stakeholder engagement and 'soft market testing'.
2	Open scheme or put out call for business cases	Identify strategic partnerships and specific investment opportunities
3	Evaluate business cases	Develop and evaluate business cases
4	Make investment decisions	Make investment decisions

Annex 2: Managing delivery

Governance and management

The Crown Estate Scotland Investment Strategy forms part of the 2020-2023 Corporate Plan. This Corporate Plan is owned and overseen by the Crown Estate Scotland Board. The Board delegates management of the Investment Strategy to the Investment Committee, with agreed thresholds in relation to investment direction setting and approval of individual investments and sales in accordance with the organisation's Scheme of Delegation.

A portfolio approach will be taken to managing the Investment Strategy. Individual investments/investment schemes and significant disposals will form elements within the portfolio. The Investment Committee will operate as a portfolio board, supported by the CES Commercial Manager, who will have the role of monitoring and reporting on the performance of our investment and asset portfolios.

Crown Estate Scotland will identify an Investment Portfolio Manager and Business Case Manager to support the programme. This will sit within the Finance and Business Services team providing portfolio oversight, support and quality assurance on business case preparation and approval.

Asset management teams will lead the development of specific schemes and projects. Within these teams a lead individual will be identified for each project. It is likely that additional resource will be required in the asset management teams to ensure they can continue to undertake day to day operational activities as well as new investment workstreams.

Implementation of approved projects will be led by the asset management lead. The Investment Portfolio Manager will support and monitor implementation and provide the main link with the ongoing governance process for managing the implementation and performance of the investment portfolio.

Scoping and decision processes

This Investment Strategy signals a step change in investment activity for Crown Estate Scotland. Four broad stages will be involved for each investment category:

Scheme or 'call' approach	Individual investment approach
Design scheme with stakeholder engagement	Determine investment priorities for each sector based on stakeholder engagement and 'soft market testing'.
Open scheme or put out call for business cases	Identify strategic partnerships and specific investment opportunities
Evaluate business cases	Develop and evaluate business cases
Make investment decisions	Approve business case

As part of a wider initiative, Crown Estate Scotland has introduced a business case process based on the Treasury Green Book '5 case model', recommended for use by the Scottish Public Finance Manual (SPFM). Each 'case' is interconnected, but distinct. The full Business Case will enable the organisation and its stakeholders to ascertain that proposals:

- Are supported by a robust rationale – the Strategic Case;
- Deliver value for money and Best Value – the Economic Case (we refer to this as the Value case to emphasise the consideration of wider values);

- Are commercially viable – the Commercial Case;
- Are financially affordable – the Financial Case; and
- Can be delivered successfully – the Management Case.

All of these elements are important; however, their depth will vary depending on the nature and complexity of each proposal. The Economic Case process will be developed to incorporate the requirements of the Scottish Crown Estate Act in relation to the wider value components of sustainable development.

Crown Estate Scotland has no hypothecation policy that would dictate that capital release from a particular asset class be reinvested in that asset class, indeed Crown estate Scotland is seeking an open and dynamic basis for refocusing Scottish Crown Estate assets in ways that increase their contribution to Scotland.

Investor roles

The role of CES will not be the same for every investment depending on the type of investment, investment partners and project objectives. There may be situations where CES makes a sole investment in a well-established asset, but we expect more examples going forward of CES as an investment partner in projects involving development because we see think this is where we will be able to add most value.

Our investor role might range from minority investor in an investment proposal developed by a partner, to being a lead investment partner and project originator. Our developer role might range from making available land for development, through master-planning and securing of consents, becoming a strategic construction partner, or even lead developer. Limits to CES capital funds are a further reason to work with strategic investment partners, especially where this CES investment will catalyse the project and enable it to happen.

The legislative context requires the CES investor role to be in relation to 'estate in land' – with a demonstrable link with land or fixed assets. We will work with our legal advisors to determine how these requirements can be met to offer the maximum flexibility for CES to deliver value to Scotland as an investor. We will favour projects that allow simple co-investment arrangements that meet our legal requirements without generating high transaction costs. This will tend to involve an ownership stake in a tangible asset rather than simply an equity shareholding in an SPV.

Where appropriate we will identify potential investment partners and projects on an open basis. This will include being guided by published Government strategies and priorities. For some parts of the investment portfolio, such as for innovation and local partnerships, it may be appropriate to undertake bidding rounds within some form of defined scheme.

Investment business cases will include consideration of the optimum CES role in each investment.

Investment criteria

CES will assess investment opportunities against a set of criteria, designed to meet the requirements of the Scottish Crown Estate Act 2019, to align with our purpose, objectives and activities, as well as meeting accountability requirements. The criteria are embedded within the business case process, and recorded as part of the decision process. Threshold values may vary depending on the nature of the investment and the spread of value benefits sought. The portfolio approach summarised above provides a context to accept lower financial and risk thresholds for projects supported through the

innovation and local partnership funds, but the impact of this will be carefully managed to meet portfolio-level financial goals.

Investment criteria are at Annex 3.

Risk management

The Crown Estate Scotland Risk Management Framework defines risk appetite for Investment: Our risk appetite is open (on a scale of averse, cautious, open, hungry). This is described: 'Crown Estate Scotland is mandated to increase the social value of the Crown Estate in Scotland. Our business mandate and capability provide unique opportunities to support emergent sectors such as marine renewables and participate in ventures with communities and other partners to secure social and financial value. We are open to investments that balance the financial returns with wider benefit delivery. We are open to novel approaches and taking some investment risk. We work with emerging sectors and local partners for long-term return and capital asset growth.'

All investment business cases will be required to demonstrate the reasonable prospect of a positive real (after accounting for inflation) return on investment in relation to capital growth and revenue yield. The Investment criteria do make provision to accept lower returns for projects that offer a high level of certainty of significant contribution to sustainable development. However, a portfolio approach will be taken to investment management to manage the portfolio-level risk-reward profile, whilst also allowing for specific profiles to be set for specific portfolio components. This is likely to require that higher risk or lower financial return investments be balanced by lower risk or higher financial return investments to meet the target real capital growth – currently requiring value growth of at least 2% per annum.

Portfolio-level financial risk will be managed through the Investment Portfolio Board. Likewise, the Programme Board will ensure that the portfolio meets the wider value tests in relation to furthering the achievement of sustainable development in Scotland. This will require robust evidence of wider value delivery in business cases and a disciplined approach to evaluation of investment portfolio outcomes.

Annex 3: Investment Criteria

Strategic	Value	Commercial	Financial	Management
Corporate Plan fit*	Economic contribution*	Strength of Business Plan	Threshold IRR*	Project complexity
National/regional contribution	Community/social wellbeing	Leverage (catalyst)	Discounted payback period	Operational fit
Stakeholder support	Contribution to regeneration	Partners' track record	Capital value growth*	Right scale
	Environmental sustainability	Financial readiness	Set up cost and management overhead	Potential liabilities
	Climate change (adaptation and mitigation)	Security and ranking	Capital exit	Legal*

The investment criteria categories are mapped to the 'five case model'².

A weighted scoring matrix will be developed to assess potential investments based on a RAG system. It is proposed that all criteria must be rated as green or amber, whilst criteria marked * must be green.

There is a mix of quantitative and qualitative criteria. Assessment of criteria will be proportionate to the scale of the investment.

Strategic

Purpose and Corporate Plan fit:

- Aligns with CES Purpose and Corporate Plan.

National/regional contribution:

- Projects will be favoured which make a national or regional contribution for example in relation to meeting policy priorities or serving as an exemplar or pathfinder project.

Stakeholder support:

- Supported by key stakeholders and, on balance, by local communities. Positive for CES reputation.

Value

Makes an economic contribution in at least one of the following ways:

- Makes a recognisable contribution to one or more aspects of Scottish economy.
- Supports new opportunities for sustainable business and innovative approaches.
- Contributes to Scotland's circular economy.
- Supports local / regional / national supply chains.
- Creates and/or safeguards jobs.

Contributes to community/social wellbeing in at least one of the following ways:

² <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

- Supports a healthier Scotland.
- Contributes to skills building.
- Encourages genuine community participation.

Contributes to regeneration in at least one of the following ways:

- Actively regenerates the attributes within its context (built environment, infrastructure, ecosystems, etc).
- Integrates with the activities of others to deliver increased/enriched outputs/benefits.

Improves environmental sustainability in at least one of the following ways:

- Improves and strengthens biodiversity.
- Reduces pollution and its impacts.

Supports climate change adaptation and mitigation:

- Demonstrates low GHG emissions in delivery and operations (mitigation).
- Is robust and prepared for a changing climate and / or contributes to implementation of SG's Climate Change Adaptation Plan (adaptation).

Commercial

Strength of Business Plan:

- Third party due diligence
- Evidence of technical/professional design, financial appraisal and at least outline consent.
- Internal business plan only

Leverage (catalyst):

- Projects will be favoured which can demonstrate that CES investment is instrumental to project success and/or attracts partner funding.

Partners track record:

- CES stake >£1M. Credible track record or new enterprise directors with credible track record.
- £0.5-£1M. Good evidence of thorough and professional approach even if no track record.
- <£0.5. Sufficient evidence of thorough and professional approach.

Financial readiness:

- Evidence of financial partners and package in place to allow Financial Investment Decision.

Security and ranking:

- Senior security ranking for projects judged as high risk and >£1M.
- Joint senior ranking for projects judged as medium risk and >£1M.
- Top quartile ranking (by investment value) for projects judged as low risk and >£1M.
- For projects <£1M ranking, Investment Committee agreement to security arrangements.

Financial

Threshold IRR:

- 0.1 to 1.9% - high contribution to sustainable development (SD), low risk.
- 2% to 4.9% - moderate contribution to SD, medium risk.
- Higher than 5% - low contribution to SD and/or high risk.

Discounted payback period:

- Low risk – up to 30 years.
- Medium risk – up to 20 years.
- High risk – up to 10 years.

Capital value growth:

- Maintains or increases real capital value.

Set up cost and management overhead:

- Combined CES set up and estimated management costs <15% of CES investment value.

Capital exit:

- Strong capital release potential through resale or contractual arrangement.
- Capital release potential good but is not contractual or is contingent on future circumstances.
- Poor potential to achieve capital exit.

Management

Project complexity:

- Complexity proportionate to scale of project and CES stake. Project risks clearly evaluated and sufficiently mitigated. Low risk of transaction cost escalation.

Operational fit:

- Project fits with organisation expertise, skills and capacity.

Right scale:

- Project is large enough to justify set up costs and staff focus, but not so large as to overly dominate the investment slate. A normal range for a cash investment would be £0.5-10M, although smaller investment would be considered where in partnership with a community.

Potential liabilities:

- Projects will be favoured which offer low exposure to residual liabilities, such as in relation to decommissioning, redundant structures, public safety or third-party impacts.

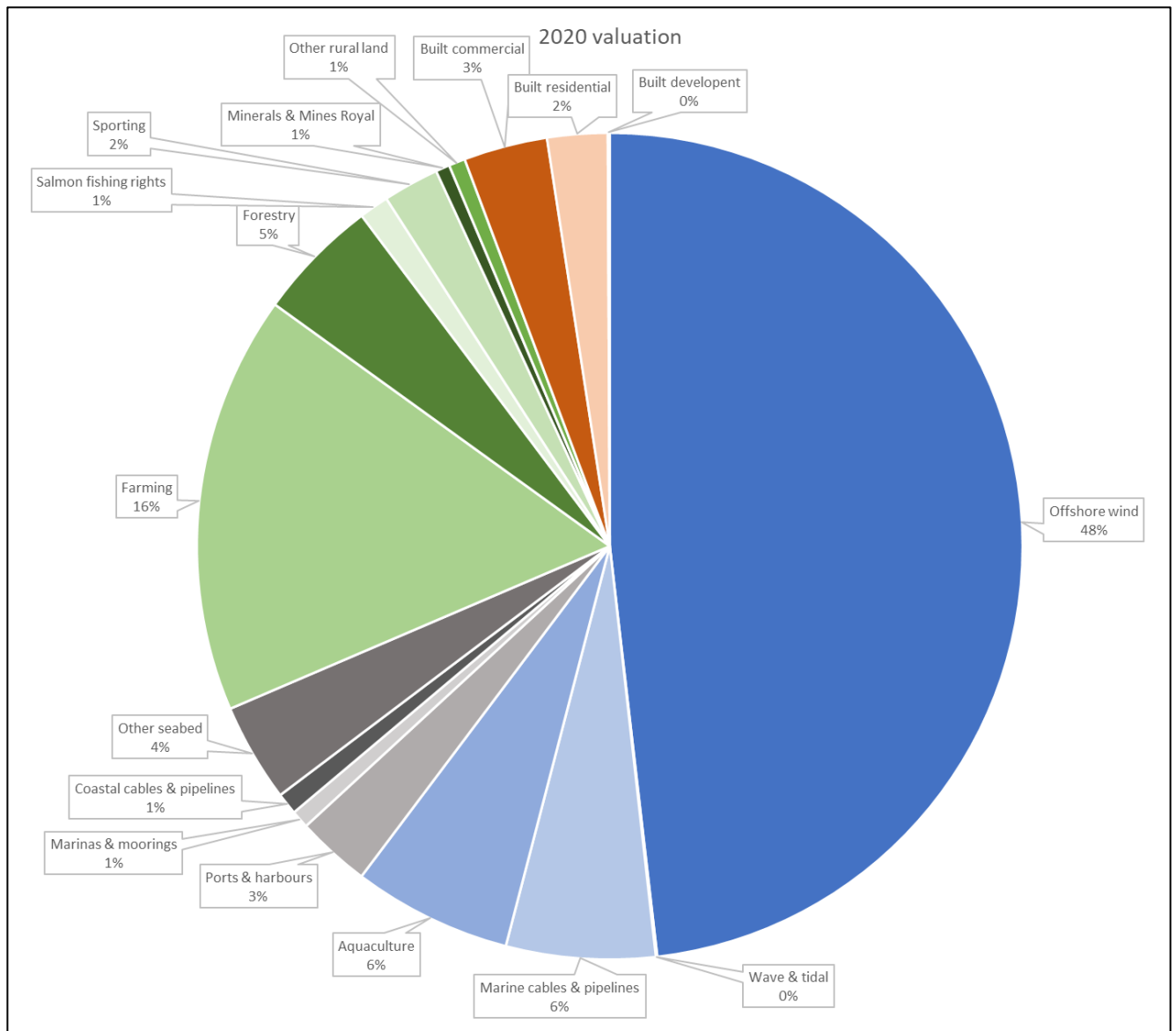
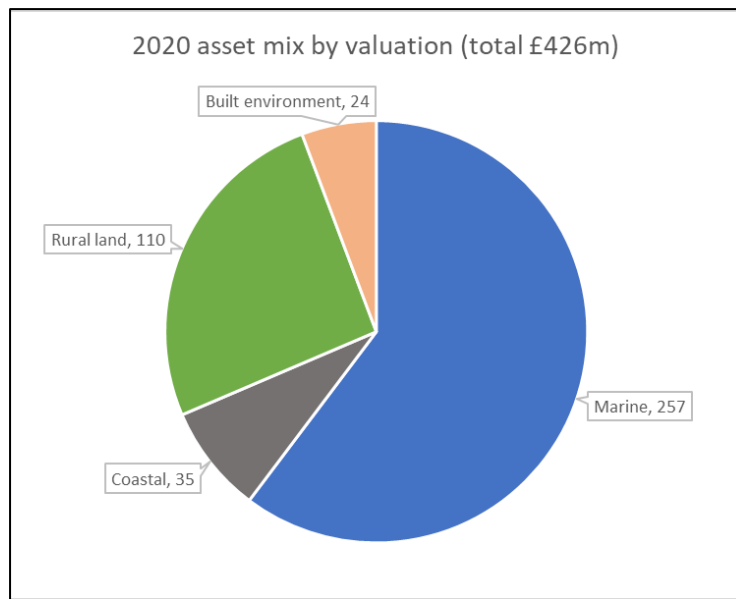
Legal:

- Permissible legal structures.
- Meets State Aids requirements.

Annex 4: Asset classification adopted by the CES Board

Asset	Use
Marine	Offshore wind
	Wave & tidal
	Cables & pipelines (Marine)
	Carbon capture & storage
	Finfish farming
	Shellfish farming
	Seaweed
Coastal	Ports & harbours
	Marinas & moorings
	Cables & pipelines (Coastal)
	Other seabed
Rural land	Farming
	Forestry
	Salmon fishing rights
	Sporting
	Minerals & Mines Royal
	Other rural land
Building	Residential
	Commercial
	Other built environment
	Development

Annex 5: Presentation of 2020 valuation data by asset and use class



Board	Twenty Second Meeting	BD(2020)22
Meeting date	29 September 2020	
Paper title	Chief Executive's Report BD(2020)22.3	
Security classification		
Presented by	Simon Hodge	
Author	Renée Lefrançois	
Annexes	n/a	
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

The Covid-19 item later in the agenda covers updates on impacts and responses, and the monthly Covid-19 Report summarises relevant activity across the business. Impact on Business Plan delivery is coming through in quarterly reporting (see September Covid-19 update for more).

The new Programme for Government contained a number of announcements relevant to Crown Estate Scotland including an updated Offshore Wind Policy statement; a refreshed Energy Strategy; an updated Climate Change Plan; a Blue Economy Action Plan; support for forestry, peatland restoration and biodiversity; support for CCUS, 'green skills' and 'greening' procurement.

The commitment to incorporate the UN Convention on the Rights of the Child into Scots Law will mean Crown Estate Scotland will have new duties to act in a way that is compatible with the Convention. As currently drafted, the relevant Bill does not require us to report on how we are fulfilling those duties but that may change as the Bill progresses through the Scottish Parliament.

2. Health & Safety and Wellbeing

The HR team launched our Wellbeing Matters programme in September, with fruit and vegetable boxes delivered to each employee along with a note from Amanda and Simon. There is a good level of engagement on our Teams wellbeing channel and various training, workshops are taking place, covering our Employee Assistance Programme (how it can help employees), resilience, and working remotely.

The internal Health & Safety Committee met on 19 August 2020 and discussed the annual review of health & safety policies, training including working from home, DSEs, and an update on accidents and near misses.

Return to outdoor work continues to be monitored. In addition, a comprehensive risk assessment for staff to enter Bells Brae to collect personal belongings and clear desks, is now finalised.

3. Risk Management

The Executive Team continues to monitor the risk register and consider emerging risks, with an up-to-date register being considered at each Audit & Risk Committee meeting. Emerging risks currently include Covid-19 fatigue and meeting data migration deadlines.

4. Finance

Unqualified accounts were signed on 2 September 2020 and are now with Scottish Government to lay in Parliament.

New Purchase Order and contract register processes have been rolled out and the new delegated authorities are being approved.

The first reforecast of the year will be presented to the Audit & Risk Committee in October.

We are in active discussion with Scottish Government to restart payments of the 2019/20 net revenue surplus. Assuming forecasts remain stable, we are proposing the full repayment by the end of December 2020.

5. IT

IT project updates are covered under agenda item 3.3.

6. People

Kate Bellew, currently senior conservation planner with RSPB, joins the Policy team in October to replace Hannah Whyte as Policy Manager.

The consultation on new office accommodation concluded at the end of July and is covered under agenda item 3.4.

Close liaison with PCS continues regarding the new office, return to office-based working, and clearing out Bells Brae.

The annual staff survey is due to launch in October. This covers a range of topics and provides metrics against our corporate plan KPIs on staff satisfaction and employee engagement.

Work on Equality & Diversity currently includes:

- preparation of a new data collection function on our HR system, based on protected characteristics, so we can establish a baseline for our current workforce;

- discussions with public and third sectors bodies as to how we can embed diversity into corporate and asset management activity;
- review of our recruitment policy and processes;
- sourcing of unconscious bias training for Board and Executive Team.

7. Less than market value policy

Following the publication of our policy, guidance will be published in September and interested stakeholders updated. The policy and guidance will be reviewed in 2021, giving us an opportunity to take stock of feedback and assess whether any changes are required.

8. Sustainable Communities Fund

The fund, with two grants, launched 30 July and was publicised through our social media various channels. A webinar held with Development Trust Association Scotland attracted 30 attendees and the content was shared afterwards on social media.

The Community Capacity Grants (£150k, administered by Foundation Scotland) has had 25 applications submitted (totalling £514k) with another 60 in progress on the Foundation Scotland website. The closing date for Expressions of Interest is 8 October 2020.

Environment Grants (£100k, administered by Crown Estate Scotland) has attracted a number of enquiries but no applications have been received yet. We are now publicising further and sending letters to tenants, and the closing date will be extended from 5 October to 30 October 2020.

9. Blue Economy Strategy

Further to the work Crown Estate Scotland has undertaken with Scottish Enterprise, Highlands and Islands Enterprise and the engagement we have had over the course of the year with Marine Scotland, the Programme for Government announced in September confirmed the development of a Blue Economy Action Plan. We will continue to engage with and support the Scottish Government in the development of this.

The Chief Executive and Director of Marine have visits scheduled to Orkney and the Western Isles to explore blue economy related investment opportunities.

10. Energy and Infrastructure

A significant focus for the team has been addressing ScotWind questions following its launch in June, for which approximately 800 queries were received. We have now published responses to these over two separate documents. Registration for ScotWind has now closed with the next key milestone being the adoption of the Sectoral Marine Plan by Marine Scotland, anticipated in Autumn. The team also ran a successful industry update session at the Scottish Renewables Annual Conference.

A policy approach was approved by the Board in relation to extending option agreements. This policy is now on our website with the team engaging with tenants on specific requests.

Our offshore wind Ports and Harbours report was published and has been received well. This will be the subject of further stakeholder engagement and will also be referenced at upcoming discussions in October / November with Orkney Islands Council (OIC) and Comhairle nan Eilean Siar (CnES).

Interaction with Scottish Government and the UK Oil and Gas Authority has continued in relation to renewable energy generation for oil and gas infrastructure, and in relation to progressing the CCS opportunity. Further information is in the update note sent to Board on 26 August 2020. The Oil and Gas Authority and Crown Estate Scotland's Chief Executives are scheduled to meet in October.

We have received an update from MeyGen that another failure has occurred which is preventing further operation. We will engage further with the MeyGen team to understand the implications of this and the actions they are taking to address it.

11. Aquaculture

Salmon rents for the third quarter have now all been received.

In the Root & Branch leasing review, the team have been exploring financial and sustainability options for the expert panel to consider as they engage with industry. The panel will feedback before Christmas. A particular consideration for the panel will be the impact of Covid-19 and Brexit on salmon markets and operating costs.

As we consider the impact of Covid-19 on the shellfish industry we have engaged with the Chief Executive of the Association of Scottish Shellfish Growers in developing the scopes of shellfish projects for strategic growth in Scotland. We continue to liaise closely with Marine Scotland and will seek to ensure alignment with Scottish Government plans for shellfish recovery.

12. Property

Six tender submissions were received for the Managing Agents ITT, each covering one or more lots. Each lot has at least one submission. Interviews will be in October.

At Glenlivet, the deer fencing at the Campdalemore restock site has now been completed. The annual UK Woodland Assurance Standard Audit was successfully completed this month following a two-day audit.

Estate-wide repair and maintenance contracts have been awarded for Applegirth and Whitehill.

An open day for the new entrant to farming opportunity at Uppercleuch attracted over 60 interested parties with the closing date on 18 September.

In Mines Royal, Scotgold Resources (SGZ) have progressed with construction of on-site plant at Cononish gold mine and anticipate "first pour" production at end of November.

At Montrose a travelling encampment of c.20 caravans has been moved on following court action and a contractor instructed to proceed with safety works.

An online video of George Street vacant offices resulted in a number of on-site viewings with heads of terms agreed and lawyers instructed on one floor.

Discussions relating to potential partnership projects and/or investment opportunities have been active in Orkney, Shetland, Highland, Moray and North Ayrshire as well as with national / regional partners including Scottish Enterprise, Highlands and Islands Enterprise, Development Trusts Association Scotland and Community Land Scotland.

The Forth District Salmon Fishery Board pilot project implementation agreement is proceeding through internal governance and liaison with our sponsor team prior to completion. OIC and CnES / Urras Oighreachd Ghabhsainn (Galson Estate Trust) pilot agreements are in drafting, and the Sullom Voe pilot is on hold whilst Shetland Islands Council carry out their master-planning process.

Ongoing engagement is taking place over Portgordon harbour works and development plans with Portgordon Community Harbour Group, Highlands and Islands Enterprise and the local MSP, Richard Lochhead. Health & Safety messaging is being prepared and issued to ensure mariners and pedestrians are aware of risks in the harbour. We are in close liaison with community representatives. Options for community ownership are being discussed with the Portgordon Community Harbour Group and HIE for consideration as part of broader community transfer models.

Process and information requirements for coastal seabed sales is a subject to ongoing dialogue with Scottish Government.

Board	Twenty Second Meeting	BD(2020)22
Meeting date	30 September 2020	
Paper title	Crown Estate Scotland Financial Structures BD(2020)22.4	
Security classification	Unrestricted	
Presented by	Alastair Milloy	
Author	Alastair Milloy	
Annexes	Annex A: Asset classification with numbers of assets Annex B: Example of portfolio, income and capital spend interactive dashboard reports	
Recommendation	The Board is invited to support the approach to presenting our activity and performance, and to note revised financial structures that allow reporting against the Corporate Plan and the approved asset classification.	
The board secretary or chairman should be advised if the contents of this paper give rise to any conflict of interest		

Background

The Corporate Plan 2020-23 lays out a new basis for focusing and reporting Crown Estate Scotland activity. The Executive Team has been preparing a corresponding basis for budgeting and performance reporting, both financial and non-financial to align with the Corporate Plan.

Proposed approach to managing Crown Estate Scotland performance

The corporate plan states our over-arching purpose and lays out our aspirations against three facets: our objectives, our assets and our roles.

The objectives are the main basis to describe our contribution. We've framed them to be cross cutting and flexible. It's good that an individual asset or spend can contribute to several objectives. For example, Montrose Zero4 will contribute to our buildings and places objective but also, we hope, to our blue economy objective. A community renewables project would support our natural resources objective and our people objective.

However, because they are cross-cutting and flexible, accounting by objectives would be extremely difficult. From a financial perspective, assets and roles work well and we are working towards understanding the finances of each of the four roles and of our asset use classes. This is considered to be the best way to organise our budgets and portfolios.

To sum up, there are three main elements to managing, assessing and presenting our performance:

- i) How we have made Scotland better (delivery against our objectives) – evidence from the impact our actions and decisions have made.
- ii) How we have used resources wisely (deployment of our four roles) – evidence showing performance from our financial information.
- iii) How the Scottish Crown Estate has performed under our custodianship (asset financial and wider value performance) – financial analysis with value delivery evidence.

This approach is proposed as the basis for consistently presenting our activity and performance. It would inform our annual report and accounts, our budget structure, our management information and our external comms.

This paper focuses on the financial structures to support this approach. The first section is on financial management structures and reporting, and the second on asset management and performance.

Financial management structures and reporting

To be fully effective, an organisation requires that the form of financial management structures and reporting follow function. In the case of Crown Estate Scotland, our function is laid out in our Corporate Plan.

Previous financial management structures were largely inherited from the predecessor organisation and limited our ability to manage and report our performance. They did not reflect the revised asset use classes agreed by Board in 2019, nor the new Crown Estate Scotland roles. They did not distribute costs to asset use class and involved an approach to capitalisation of operating costs that requires review in the light of new corporate objectives.

Key steps to revising our budget structures are well advanced:

- An asset reclassification exercise has been undertaken, assigning each asset to the approved asset use classes (sub classes have also been agreed with asset managers to enable operational asset management). The asset classification with numbers of assets assigned to each class is at Annex 1).
- A budget structure is proposed that ascribes costs and revenues to the four Crown Estate Scotland roles: Asset Manager, Investor, Enabler and Coordinator.
- An apportionment has been determined for direct costs in the Marine and Property divisions. This allocates costs to the four Crown Estate Scotland roles. Costs associated with asset management are apportioned to asset use class based on an assessment of how staff time is spent.
- An overhead distribution mechanism has been devised to distribute indirect costs across the four roles, and for overheads ascribed to asset management to be distributed across the asset use classes, using a formula that takes account of direct management costs, gross revenue and number of agreements.

Further work is underway as part of the 2020 budgeting process:

- Direct cost allocation will be extended across the business to pick up all activity directly focused on any of the four roles. This may, for example, include some elements of Corporate Operations enabler activity.

- Enabler costs will be allocated to asset type, and where possible, asset use class.
- Coordinator costs will be allocated to asset type (marine, coastal, rural land, built environment).
- Investor (capital) budgets will be allocated to asset type, asset use class and individual projects.
- Capitalisation of costs will be reviewed and mapped to the Investor role. This is likely to see certain Corporate Operations and Marine posts ceasing to be capitalised and instead identified as enabler or asset manager revenue expenditure. On the other hand, it will bring in capitalisation of new development posts, and potentially elements of Finance and Business Service activity that directly supports investor activity.
- Capital from revenue transfer will be distinguished and balanced against capitalised costs, project preparatory costs and capital maintenance. This will enable us to demonstrate how capital raised by asset sales is directly reinvested in capital assets rather than funding costs.
- The capital pipeline will be strengthened with consenting and approval gateways for projects to be included in the budget.
- Anticipated asset performance will be modelled from the budget to allow comparison with historic data and track efficiency and effectiveness.

Following this work, the financial structure will allow us to:

- Provide a basis for the 2021/22 and subsequent budgets to be aligned to the Corporate Plan.
- Enable a three-year planning horizon as well as use of historical data to support investment decisions.
- Manage and report spend against the four Crown Estate Scotland roles.
- Obtain an accurate picture of asset management costs, and hence net revenue by asset use class.
- Provide accurate financial information for the asset profiles.
- Distinguish direct capital investment from associated costs.
- Continue to set budgets for the four divisional 'cost centres'.
- Continue to support good cost control through an account code structure.
- Continue to underpin financial and contract management and reporting processes.
- Provide the information required by the Scottish Government and COSLA for a distribution of net revenues based on where revenues are generated.
- Provide regular and relevant MI to business managers, Executive Team and Board.
- Allow further development of segmented reporting in the Annual Report and Accounts.

Asset management and performance

The Scottish Crown Estate portfolio

We are establishing a portfolio approach to asset management, led by Finance and Business Services in liaison with others in the business. A portfolio is a collection of assets and investments. At its broadest for us, this is the Scottish Crown Estate. It has been divided into four asset types (marine, coastal, rural land, built environment) made up of 21 asset use classes (Annex A).

The asset profiles generated by the Value Project will provide a basis for understanding and presenting the performance of the assets. This has been supplemented by a Treasury Green Book five-case summary analysis of rural and built assets. The profiles present information on financial performance, as well as an assessment of current wider value delivery and the potential to deliver more. The use of external benchmarks will also be utilised to inform the decision-making process.

The most meaningful indicators of financial performance for the Scottish Crown Estate as a whole are:

- Valuation (percentage change in valuation over period adjusted for sales and investments).
- Turnover (gross income from assets).
- Profit (net revenue from assets).
- Return (net revenue percentage return on capital).
- Margin (net revenue as a percentage of gross revenue).
- Yield (total return from capital valuation and net revenue).
- Real yield (total return from capital valuation and net revenue, adjusted for inflation).

These measures will also be used to present the financial performance of each asset use class, along with a further measure:

- Contribution (proportion of Crown Estate Scotland net revenue from asset use class).

Like any financial metrics, careful interpretation will be necessary. For example, valuations are affected by a range of external and internal factors some of which are beyond our control. A sudden change in market conditions can impact valuations and hence affect apparent return on capital. Asset values are also impacted by the prevailing tax regime in force at the time of valuation. An asset could have a relatively high value but with a low income return because of other fiscal benefits not enjoyed by Crown Estate Scotland. This is particularly the case with rural land markets. In the other direction, many, particularly marine and coastal, valuations are based on rental so a short-term impact in rents (such as from Covid-19) will impact on valuation. Interpretation of performance data also requires a consideration of the nature of the asset and whether the spend relates to the development of a new income stream or investment in an existing asset. distinction between developing and mature asset use classes.

The Investment Strategy portfolio

The £70m corporate plan investment strategy will also be managed as a portfolio to monitor against the overall investment objectives set out in the corporate plan. This will enable us to track capital value, revenue return and wider value and help us to report on our achievements.

A portfolio approach will guide plans for investing, divesting and holding cash. Whilst the approach is not yet fully established, an early iteration was used to inform discussions at Investment Committee on options for asset sales.

Indicators of financial performance will be as for the Scottish Crown Estate as a whole, and also:

- Capital committed (approved business case) by asset type.
- Capital invested by asset type.
- Capital income realised by asset type.
- Impact of investment on valuation by asset use class and individual asset.
- Capital balance.
- Actual costs compared to anticipated costs.

Alongside financial measures, we will apply the Value Project asset profile measures to the Investment Strategy portfolio, as well as monitoring of individual investments against the value delivery investment criteria.

Where capital investment is made on the existing estate (such as replacing a farm building), a valuation impact estimation will be made for that investment. For performance monitoring purposes, the Investment Strategy Portfolio will include the investment (in this example, the farm building) but not the entire asset (in this example, the farm).

Capital decision making processes

Alongside portfolio management is management of individual capital projects and transactions. We have established a capital pipeline to monitor and prioritise the pipeline of potential capital expenditure and asset sale proposals (example at Annex B).

The intention is that the capital pipeline will be developed to a stage where there will be alternative assets that Crown Estate Scotland could invest in to provide a good basis to select options that best improve the portfolio profile, and provide the maximum benefit when compared with assets that might be sold to fund investment. This information will be developed and reported on as noted in the reporting section.

The pipeline needs to incorporate current value and expected income and expenditure profile in order to optimise financial performance. For example, options for a farm requiring substantial condition survey work might be to invest in that work or to seek sale of the asset.

We have established a business case process to evaluate and provide governance of individual capital proposals. There will be three levels of business case:

- Case sheet (< £75k)
- Small business case (£75k-£150k)
- Strategic outline business case followed by full business case (>£150k).

Business cases will have the following elements:

- the Strategic Case – robust rationale.
- the Value (economic) Case – will deliver value.
- the Commercial Case - commercially viable.
- the Financial Case – affordable.
- the Management Case - can be delivered successfully.

We have established programme and project management for significant capital activities, and work continues to extend this approach further through our activity.

Reporting

Portfolio reporting will be principally on an annual basis to utilise annual valuation data. Reporting will be initially to the Investment Committee, which will serve as the investment portfolio board, and thence to the main Board. It is proposed to further develop the Annual Report and Accounts Performance Analysis (section 2) to provide further financial information on the four roles the assets and the Investment Strategy Portfolio from 2021/22. The segmented analysis in the accounts will be adjusted to recognise the updated asset types to align with this.

A review is being undertaken to ascertain the information available on our current systems and possible dashboard type reporting tools that will enable more in-depth reviews and analysis of the Crown Estate Scotland portfolio.

Geographic reporting has yet to be considered. Whilst there will be handling issues for published data, we now have the capability to determine asset performance by geography, such as local authority area.

The business case process will be overseen by the Investment Committee and reported periodically to the Board.

Reporting Timetable

January – Annual budget finalised outlining performance expected over three-year period. Allocation method agreed to enable costs (by asset type) to be allocated to give net returns from each asset.

April – Annual valuation return showing movement on assets.

May – Annual performance reports including portfolio report and analysis (including dashboard review) of performance of assets. This will show historical performance and expected future performance and cashflow (after costs and revenue costs) expected over future three years.

June – Portfolio review of assets. Feedback from the Portfolio Board (Investment Committee) would allow for scenario review on asset sales and new investments.

August – Q1 financial and capital pipeline performance report including portfolio impact review of assets that are deemed to be under performing including assets.

September – YTD 4 month budget reforecast, capital pipeline performance report and portfolio analysis.

October - December – Next Year budget process undertaken outlining performance expected over the next three-year period. Allocation method determined to enable costs (by asset type) to be allocated to give net returns from each asset.

February – Q3 financial and capital pipeline performance report.

Financial

The proposals in this paper will further strengthen our financial management.

Sustainability

Sustainability issues form a core part of capital decision making processes and are fundamental to development of the Enabler role.

Legal implications

Adjustment to the annual accounts has to remain within the bounds of recognised accounting standards.

Risk

Good financial management and reporting is a key mitigation for managing risk.

People considerations

Relevant staff have been involved with the asset reclassification and cost allocation projects. We will be engaging teams further in use of financial information for effective budget management and in informing directions for portfolio management.

As outlined in workforce planning updates to Board in 2020, further capacity building is underway to strengthen our capability to manage investment projects.

Reputational / PR

The proposed approach will allow a more transparent approach to managing and reporting financial performance. This increases the opportunity for scrutiny, which is seen as a positive given our status as a Scottish public body.

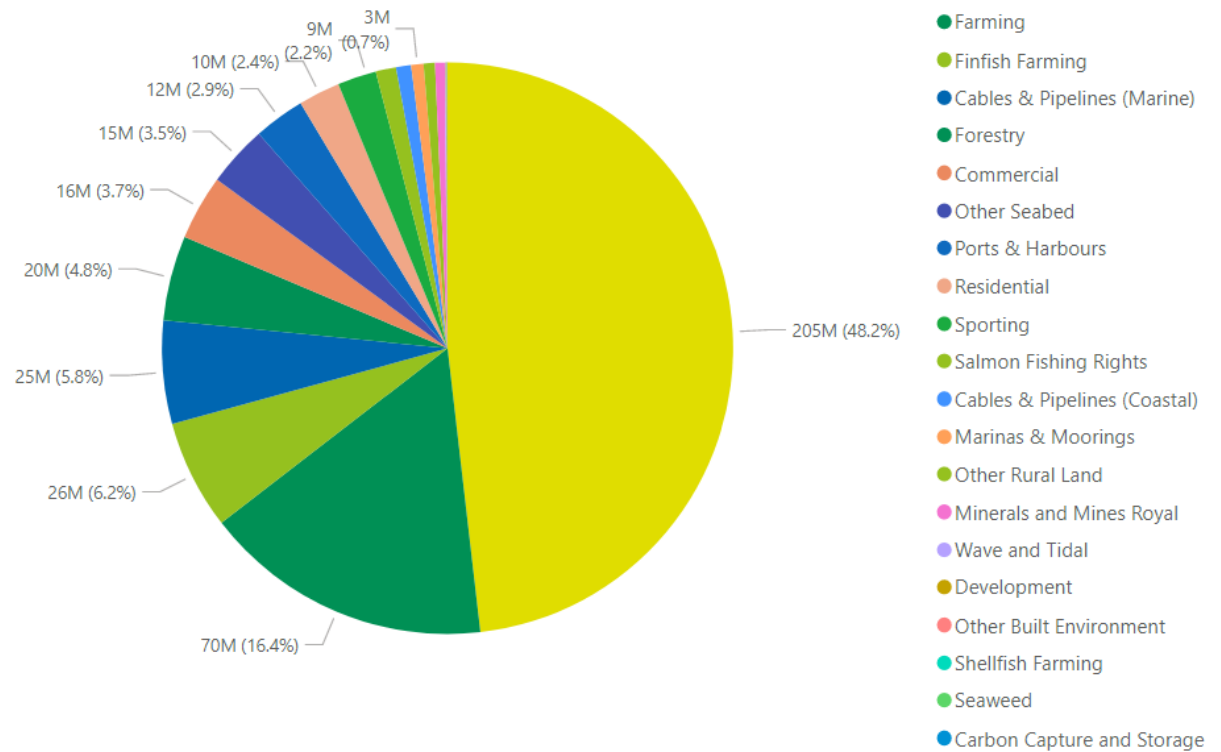
Annex A: Asset classification with numbers of assets assigned to each class

Asset	Use class	Number of assets
Marine	Offshore wind	32
	Wave & tidal	12
	Cables & pipelines (Marine)	49
	Carbon capture & storage	1
	Finfish farming	373
	Shellfish farming	390
	Seaweed	10
Coastal	Ports & harbours	81
	Marinas & moorings	935
	Cables & pipelines (Coastal)	195
	Other seabed	756
Rural land	Farming	266
	Forestry	10
	Salmon fishing rights	164
	Sporting	43
	Minerals & Mines Royal	53
	Other rural land	190
Building	Residential	96
	Commercial	47
	Other built environment	7
	Development	34
Total	Total	3,744

Annex B : Example portfolio, income and capital spend dashboard reports

Asset Type	Sum of Value 2020	Income	Income Return %
Offshore Wind	205,274K	4,332K	2.11%
Farming	69,789K	1,755K	2.51%
Finfish Farming	26,416K	5,011K	18.97%
Cables & Pipelines (Marine)	24,866K	3,376K	13.58%
Forestry	20,458K	591K	2.89%
Commercial	15,690K	1,035K	6.60%
Other Seabed	14,727K	1,890K	12.83%
Ports & Harbours	12,307K	1,054K	8.56%
Residential	10,062K	414K	4.12%
Sporting	9,349K	148K	1.59%
Salmon Fishing Rights	4,926K	147K	2.98%
Cables & Pipelines (Coastal)	3,621K	388K	10.72%
Marinas & Moorings	2,992K	447K	14.95%
Other Rural Land	2,725K	256K	9.40%
Minerals and Mines Royal	2,337K	659K	28.18%
Wave and Tidal	230K	35K	15.40%
Development	220K	1K	0.29%
Other Built Environment	98K		
Shellfish Farming	80K	453K	563.29%
Seaweed	14K	1K	7.57%
Carbon Capture and Storage	10K		
Total	426,193K	21,993K	5.16%

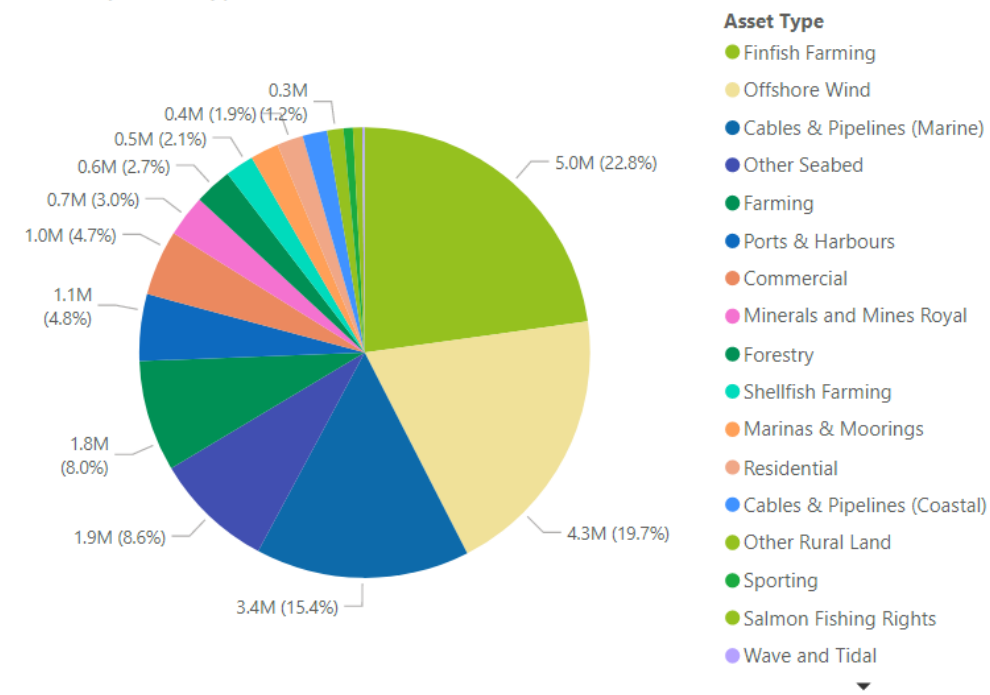
Sum of Value 2020 by Asset Type



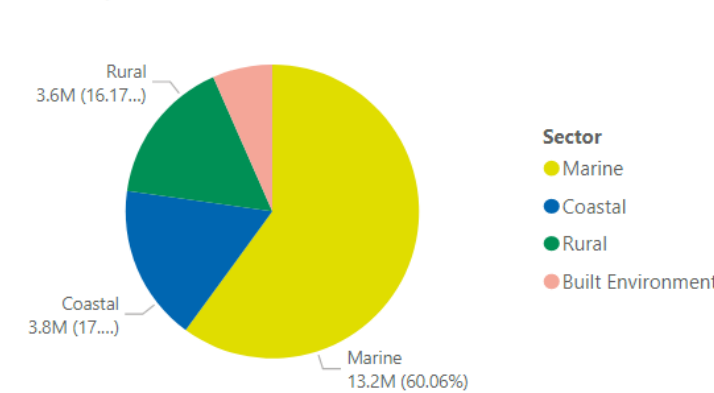
Annex B : Example portfolio, income and capital spend dashboard reports

Asset Type	Income	Income Return %
Finfish farming	5,011K	18.97%
Offshore wind	4,332K	2.11%
Cables & Pipelines (Marine)	3,376K	13.58%
Other Seabed	1,890K	12.83%
Farming	1,755K	2.51%
Ports & Harbours	1,054K	8.56%
Commercial	1,035K	6.60%
Minerals and Mines Royal	659K	28.18%
Forestry	591K	2.89%
Shellfish farming	453K	563.29%
Marinas & Moorings	447K	14.95%
Residential	414K	4.12%
Cables & Pipelines (Coastal)	388K	10.72%
Other rural land	256K	9.40%
Sporting	148K	1.59%
Salmon Fishing Rights	147K	2.98%
Wave and tidal	35K	15.40%
Seaweed	1K	7.57%
Development	1K	0.29%
Total	21,993K	5.16%

Income by Asset Type

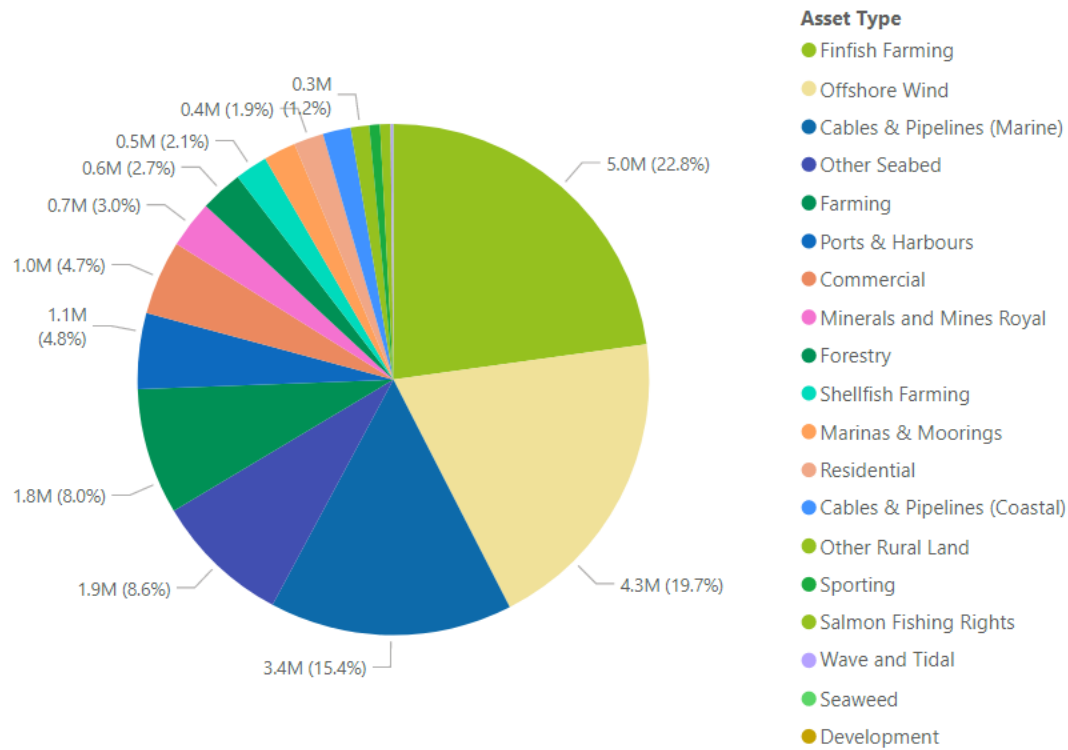


Income by Sector



Annex B : Example portfolio, income and capital spend dashboard reports

Income by Asset Type

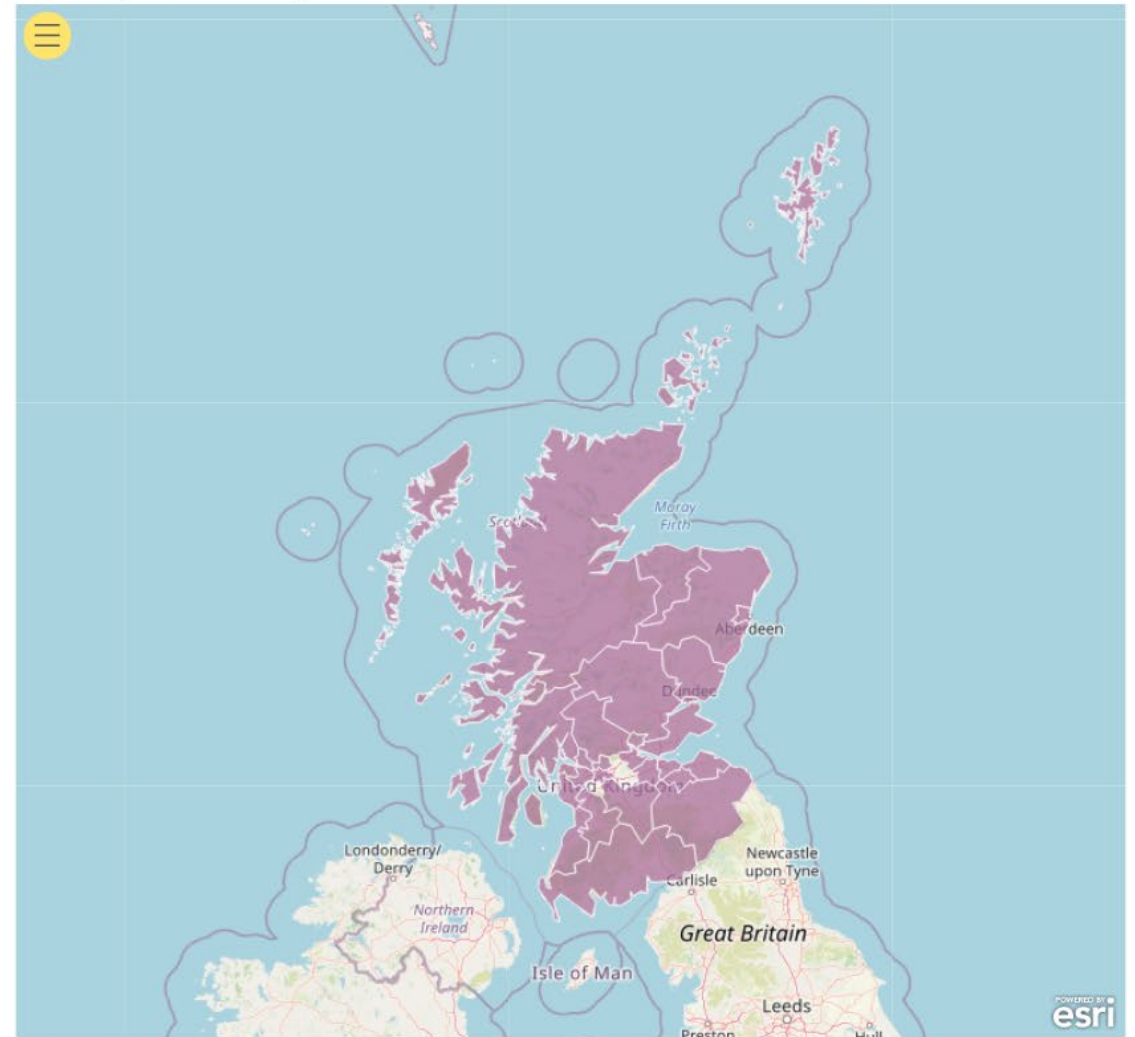


Asset Type	Count of Asset No	Income Return %	Income	Sum of Value 2020
Offshore Wind	32	2.11%	4,332K	205,274K
Farming	266	2.51%	1,755K	69,789K
Finfish Farming	373	18.97%	5,011K	26,416K
Cables & Pipelines (Marine)	49	13.58%	3,376K	24,866K
Forestry	10	2.89%	591K	20,458K
Commercial	47	6.60%	1,035K	15,690K
Other Seabed	756	12.83%	1,890K	14,727K
Ports & Harbours	81	8.56%	1,054K	12,307K
Residential	96	4.12%	414K	10,062K
Sporting	43	1.59%	148K	9,349K
Salmon Fishing Rights	164	2.98%	147K	4,926K
Cables & Pipelines (Coastal)	195	10.72%	388K	3,621K
Marinas & Moorings	935	14.95%	447K	2,992K
Other Rural Land	190	9.40%	256K	2,725K
Minerals and Mines Royal	53	28.18%	659K	2,337K
Wave and Tidal	12	15.40%	35K	230K
Development	34	0.29%	1K	220K
Other Built Environment	7			98K
Shellfish Farming	390	563.29%	453K	80K
Seaweed	10	7.57%	1K	14K
Carbon Capture and Storage	1			10K
Total	3,744	5.16%	21,993K	426,193K

Annex B : Example portfolio, income and capital spend dashboard reports

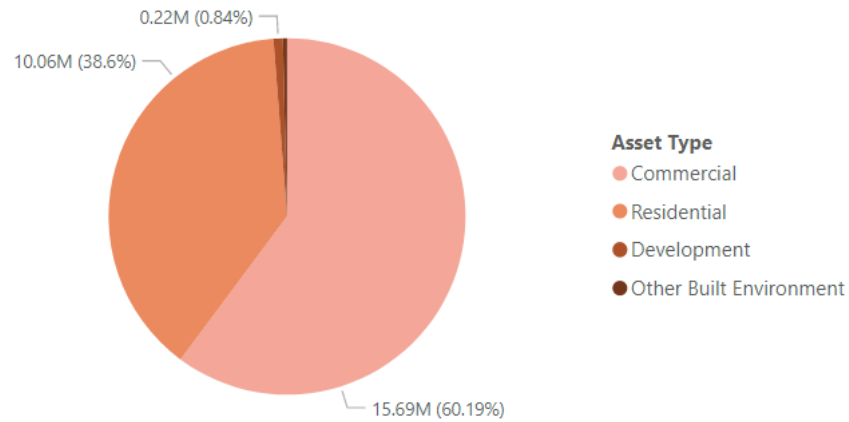
Asset Type	Sum of Value 2020	Income	Income Return %
Cables & Pipelines (Coastal)	3,621K	388K	10.72%
Commercial	15,690K	1,035K	6.60%
Development	220K	1K	0.29%
Farming	69,789K	1,755K	2.51%
Forestry	20,458K	591K	2.89%
Marinas & Moorings	2,992K	447K	14.95%
Minerals and Mines Royal	2,337K	659K	28.18%
Other Built Environment	98K		
Other Rural Land	2,725K	256K	9.40%
Other Seabed	14,727K	1,890K	12.83%
Ports & Harbours	12,307K	1,054K	8.56%
Residential	10,062K	414K	4.12%
Salmon Fishing Rights	4,926K	147K	2.98%
Sporting	9,349K	148K	1.59%
Total	169,303K	8,785K	5.19%

Income by Local Authority

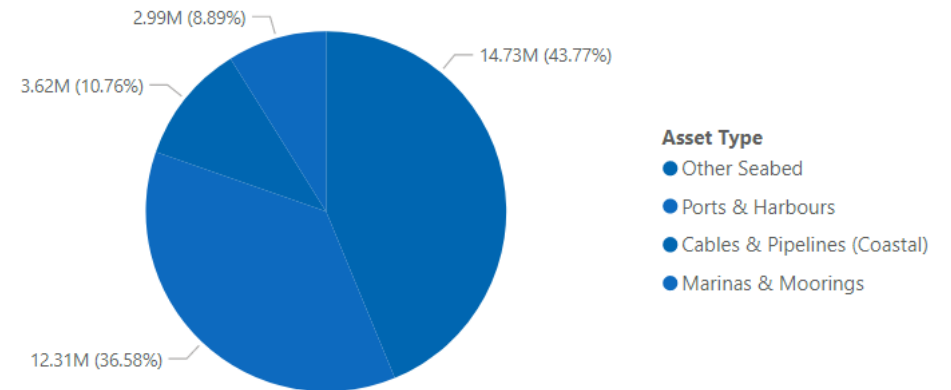


Annex B : Example portfolio, income and capital spend dashboard reports

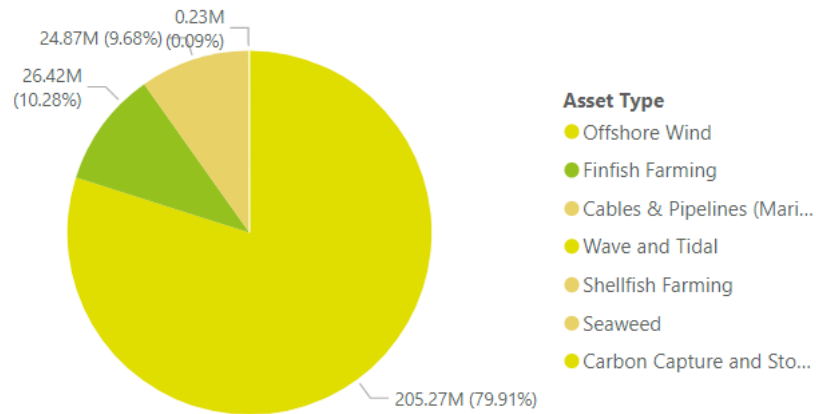
Sum of Value 2020 by Asset Type



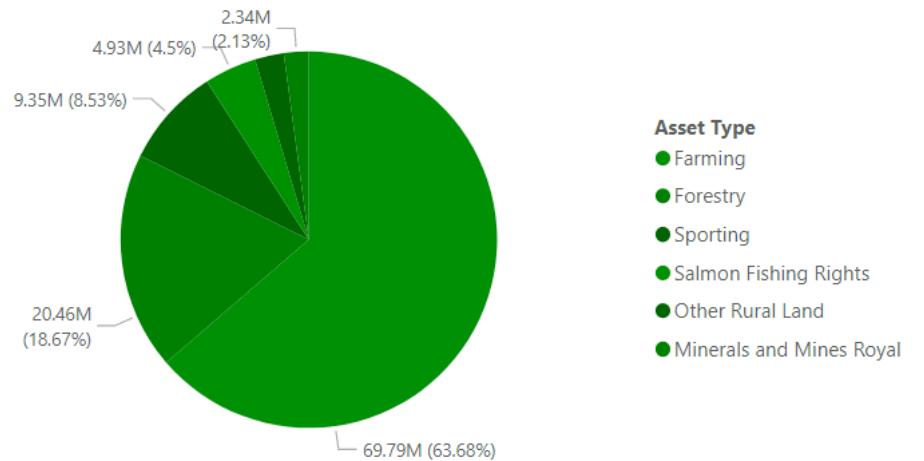
Sum of Value 2020 by Asset Type



Sum of Value 2020 by Asset Type

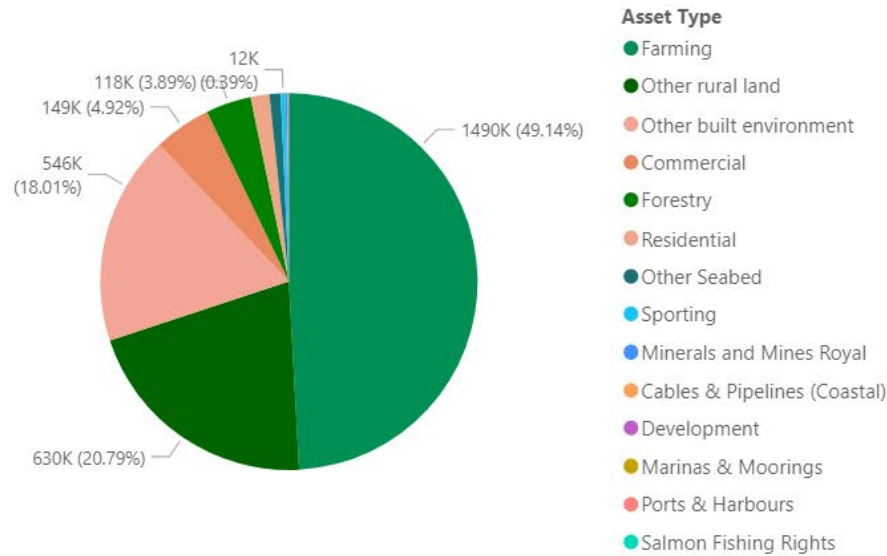


Sum of Value 2020 by Asset Type

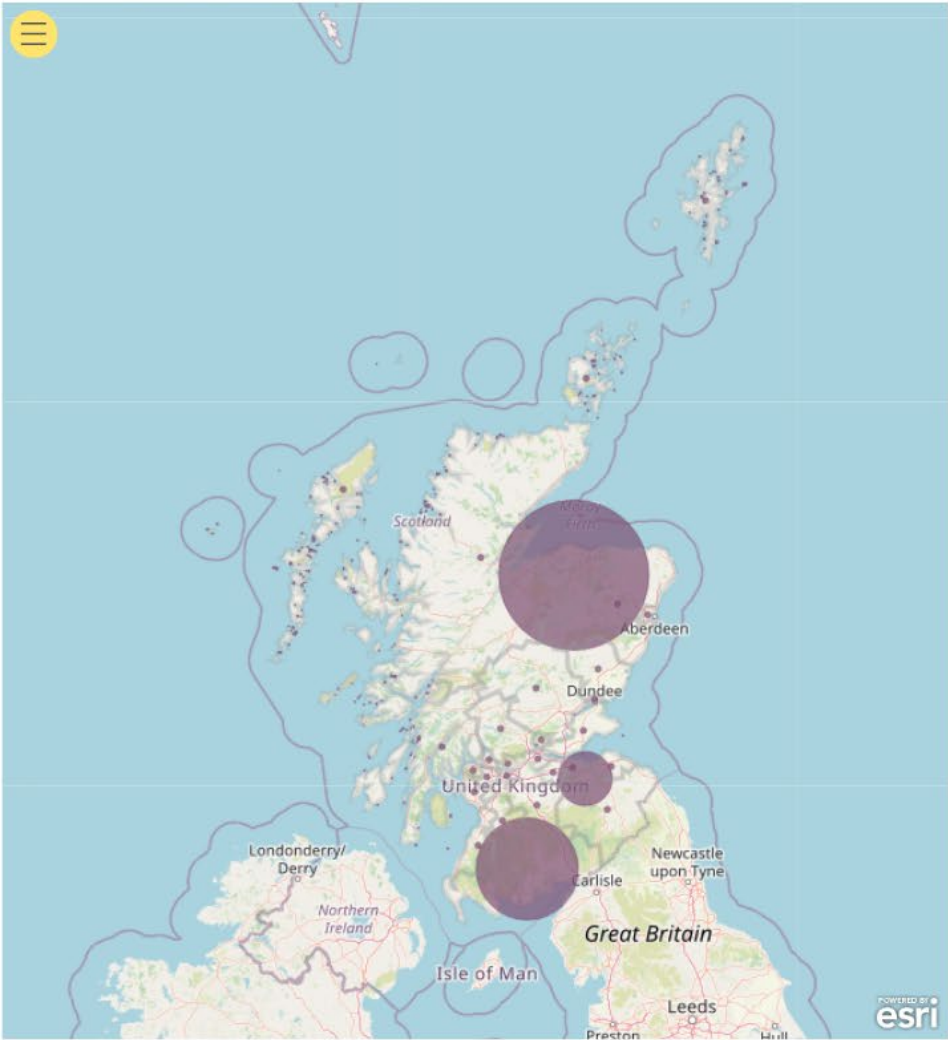


Annex B : Example portfolio, income and capital spend dashboard reports

Sum of 19/20 capex by Asset Type



Sum of 19/20 capex by Local Authority



Board	Twenty Second Meeting	BD(2020)22
Meeting date	30 September 2020	
Paper title	IT Transformation Report BD(2020)22.5	
Security classification	Restricted	
This document contains commercially sensitive and confidential information and may relate to the formulation of policy.		
Presented by	Alastair Milloy	
Author	Alastair Milloy	
Annexes	Annex A: IT Transformation Report	
Recommendation	The Board is invited to note the content of the Report at Annex A.	
The board secretary or chair should be advised if the contents of this paper give rise to any conflict of interest		

Summary

The report at Annex A outlines the progress made in delivering IT transformational improvements. The report covers the work undertaken (and planned) in the following categories:

- Emergency Improvements as a result of Covid-19
- Document and Record Storage Project
- IT Governance and Security Project
- Server Infrastructure Project
- Property Management System Project
- Office Move Project
- Other work
- Future Plans

Board	Twenty Second Meeting	BD(2020)22
Meeting date	30 September 2020	
Paper title	New Office Project BD(2020)22.6	
Security classification	Restricted	
This document contains commercially sensitive and confidential information and may relate to the formulation of policy.		
Presented by	Alastair Milloy	
Author	Alastair Milloy	
Annexes	Annex A: New Office Consultation: Feedback Summary	
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

- At the Board meeting held on 25 March 2020, the Board reviewed and agreed the New Office Project recommendation (paper BD(2020)19.8) as follows:
 - Support the preferred option of Quartermile2;
 - Approve the Executive further negotiating for Holyrood and Quartermile3 to determine whether they are more cost effective options;
 - Approve a Total Annual Rent budget ceiling of £300k to enable the Executive to progress negotiations on the preferred properties;
 - Approve a fit-out budget of up to £310k to enable the Executive to progress negotiations on the preferred properties;
 - Note a programme for mitigating staff journey to work of up to £15k/yr for three years; and
 - Nominated Robert Mackenzie, Chair of the Audit and Risk Committee, with the delegated authority to approve the final deal (or the Chair if he was not available).
- Subsequent to that meeting, outline Heads of Term were negotiated with the landlord, which improved on the agent's original terms (details noted below). A paper outlining the process and the terms were submitted to Scottish Ministers together with additional information for their business case including NPV calculations. Notification of the approval was received on 26 May 2020 from Nim Kumar, Crown Estate Strategy Unit, as follows:

"A short note to advise that Cabinet Secretary MS Cunningham and Cabinet Secretary Ms Forbes are content to agree a new lease of premises at Quartermile 2, Edinburgh. In order for us to keep Cab Sec informed of progress, as agreed, I should be grateful for:

- A regular update on progress both on your plans to vacate bells brae and your move to new offices;
- I understand you will inform staff in due course – please do provide an update on CES' plan to advertise the move to ensure that all stakeholders are aware of the new location and how to communicate with CES".

3. The negotiations resulted in agreeing final Heads of Term on the following basis:

- a. A reduction in rent of £1/sqft from to £31/sqft.
- b. A reduction in the service charge of £1.40/sqft to £9/sqft (subject to annual RPI increase). It was also agreed to cap this Service Charge which means we will not be liable for any possible costly future lifecycle costs on the building.
- c. An increase in the rent free period from 6 months to 9 months.
- d. A capital contribution of £25,000 to enable Crown Estate Scotland to install LED lighting which will not only reduce our utility costs and carbon footprint but also improve the working ambiance of the new office. The agents have confirmed that this should be sufficient to cover the costs of the work.
- e. Entry date 1 October 2020.

The comparison to the original March Board paper is as follows:

	Quartermile 2 - Board Paper	Quartermile 2 - Final Offer
Space (sqft)	4,810	4,810
Rent	£32.00	£31.00
Service Charge	£10.40	£9.00
Rates	£8.95	£8.95
Total	£51.35	£48.95
All in cost	£246,994	£235,450
Rent Free Value	£76,960	£111,833

Approval of Heads of Term

4. As agreed by the Board in March, the Chair of the Audit & Risk Committee was delegated authority on behalf of the Board to approve the final heads of terms for the lease of the preferred property for the relocation of the Edinburgh office.

5. A paper was presented on the final heads of terms outlined earlier to the Chair of Audit and Risk Committee on 10 June 2020. These were approved following a meeting with the Chair, Director of Finance and Business Service and attended by Governance Manager on 11 June 2020.

Consultation

6. The new office consultation commenced on 16 June 2020 and ended on 23 July 2020. Engagement with staff and PCS had commenced a number of months prior to this – in 2019, staff had helped formulate the initial priorities, and in early 2020, a staff advisory group (SAG) was established and informal discussion with PCS started.

Consultation activity in July 2020 included:

- a. a presentation by project SRO to all staff at a staff meeting. This covered location, proposed layout and how staff could feedback as part of the consultation. PCS and SAG were given briefings immediately prior to this staff meeting. Slides were published for all staff to access, and these were later supplemented with a video and photographs of the office.
- b. a staff survey, with answers informed by various team meetings and discussions. A key point raised in the survey feedback was that not all desks should be 'shared desks' and that a team-based approach to desks was desired. In addition, the value in setting up a longer-term staff representative group to help work with the Executive Team alongside PCS on staff matters, including the new office, was evident.
- c. a series of meetings with recognised trade union PCS. Various discussions between the Senior HR Manager and PCS representatives covered:
 - finalising the Excess Fares Allowance. At the request of PCS, provision for car parking was included in recognition of the need to mitigate the loss of the (non-contractual) car parking facilities at Bells Brae;
 - office layout, especially the proposed move to hot-desking (or shared desks) in the light of Covid-19; and
 - the location itself. PCS stated early in discussions that the location and choice of office was not a matter of concern for their members.
- d. a series of meetings with the SAG. A number of questions were raised and these were answered throughout the consultation through published FAQ documents. Colleagues were encouraged to contact their SAG representative if they had any queries.

Consultation Feedback

7. The main feedback received during the consultation was related to flexible use of the office and desks. Following the feedback and review of the survey, it was decided that each team would be allocated a set of desks and led by their Directors, each team will decide between them how best to use the desks in their 'hub'. This may mean having some allocated desks within a "hub" for certain members of the team or they may all be hot desks – it will be up to the members of the team to agree on what the hub might look like.

8. A desk booking system will initially cover only the few desks that are not part of any team 'hub'. To help use space efficiently, manage information security and to maintain a good working environment for all users, a clear desk policy will be introduced in the new office. Lockers will replace pedestals previously used in Bells Brae to provide a safe, secure place to store our belongings when not in the office.
9. A summary of the New Office Consultation Feedback is at Annex A.

Lease process

10. The lease negotiations have progressed over the Summer and have incorporated the approved heads of terms and layout configuration suggestions following the staff consultation process.
11. Following discussion at the Board in July, an issue was raised regarding Covid-19 clauses, such as a rent-free period or rent reduction during periods when government restrictions meant that the office could not be occupied.
12. The landlord was initially reluctant to incorporate our request. Our proposal was that we needed some recognition that if Government advice was that offices could not open for non essential work then we would not be able to use the new office.
13. We asked that for every full month that a restriction is in place that there would be a reduction or abatement of rent. We also added that we would be willing to agree to an extension of the lease for each month that any clause took effect. This would mean that the landlord would not lose out on rent, albeit over a longer period.
14. The landlord then proposed that there be a deferral of rent however after time negotiating the following was agreed:
 - a. rent will be abated/not be payable for up to 6 months during any period that the clause is relied upon/applied and that this will include the rent free period. The clause will be applicable for 3 years from the commencement of the lease;
 - b. the clause will have an "excess" and so the provisions will only commence 30 consecutive days after a government closure commences. This is to avoid short periods of time, for example, during potential local lockdown scenarios;
 - c. Rent Only – the clause will apply to rent only;
 - d. The clause will be effective/can apply for a period of 3 years only from the date of entry; and
 - e. Landlord Exposure – the provisions will apply for a period of no longer than 6 months.

Next Steps

15. The next steps are expected to be:
 - a. finalising the lease negotiations – end September;
 - b. formally announcing the new office location – following signing of lease;
 - c. reviewing active travel arrangements with staff – mid September;
 - d. facilitating staff visits to the new office – September to December;

- e. finalising the layout and branding; agreeing and costing options – end September;
- f. finalising specifications and inviting quotes for the works to be undertaken – start October;
- g. undertaking fitout works and installing fibre broadband links – October and November;
- h. arranging pack up of Bells Brae and move to Quartermile 2 – November;
- i. formal opening of new office – December.

Risk

- 16. A separate Project Risk Register has been established. There is a continuing risk that Covid-19 situation could cause delays with the fit out and the office move process – the situation is being monitored on a regular basis.

People considerations

- 17. A Staff Advisory Group has been established and following the formal consultation process, ongoing engagement is being undertaken with the recognised trade union, PCS.

Reputational / PR implications

- 18. As noted above the Scottish Government, through our sponsor team, has asked to be kept informed as to the progress of the project and to provide an update on the plan to advertise the move to ensure that all stakeholders are aware of the new location and how to communicate with Crown Estate Scotland.

New Office Consultation: summary of feedback

As part of our office move project, we recently consulted the whole Crown Estate Scotland team about how we should use the new office area.

I'd like to thank all of you for your feedback to date. We know how important it is that the new space is used in a way that works for all of us and, whether you contributed through all-staff or team meetings, through your PCS representative or by taking our intranet survey, your input has helped shape the ideas we are now taking forward. Now that we have reviewed all the questions and suggestions which were made, I'm happy to be able to share the results with you.

Four key themes were covered in the survey with a set of questions for each:

- Smarter working (including hot desking)
 - For a refresher on smarter working, visit [this article](#)
- New office layout and facilities
- Bike storage and car parking
- Any other feedback

Below, you'll find a summary of the key points and our responses to them; if you'd like to read a more detailed analysis and the full survey responses, you can find them in the annex.

Smarter working

We think it will be beneficial to take a smarter approach to the way we work. An important part of this is to do with flexible working. Another aspect is to create office spaces suitable for different activities, such as informal meetings or private phone calls, using IT to make it easy to move around the office.

Two thirds of us would prefer to see the creation of a 'desk hub' for each team rather than an all hot desk office, so we will allocate each team a set of desks.

Led by their Directors, teams will decide between them how best to use the desks in their 'hub'.

This may mean having some allocated desks within a "hub" for certain members of your team. Or they may all be hot desks – it will be up to the members of the team to agree on what your hub might look like.

The desk booking system will initially cover only the few desks that are not part of any team 'hub'.

To use space efficiently, help manage information security and maintain a good working environment for us all, **we will have a clear desk policy in the new office.** Lockers will replace pedestals previously used in Bells Brae to provide a safe, secure place to store our belongings when we're not in the office.

Concerns were raised about some areas of the new office being more desirable than others (e.g. desks by a window versus those by a corridor/walkway) and this will be considered and addressed in final arrangements.

Many of us were enthusiastic and supportive of continued flexible working (a mix of home and office working) as part of a smarter working approach. In light of this response, we will:

- **Ensure we have a policy on IT hardware and other equipment for those working at home on a regular basis, and**
- **Provide headphones for everyone, and video conferencing facilities in all meeting rooms**

It's important to recognise that everyone will have a different preferred approach to working. Feedback suggests that many of us would like to spend time working from home as well as the office, but you may prefer office working full time. We believe using the 'hub' approach helps us make the most efficient use of space while accommodating different preferences.

It's important to remember that the office space will be new for all of us, so we will review how the new arrangements are working and adjustments can be made if we think a different approach could work better.

Layout and facilities

The layout of the new office is important – we want to maximise the use of the space, so we have a good mix of working / collaborative and social areas. **Whilst our desks are very large, we will make the most of spacing between desks in the desk working area.**

We asked for preferences on how the area beside the kitchen might be used. Based on your feedback, **we will create a coffee bar and two booths in this space.**

It was also clear from responses on the layout and facilities that there are concerns around office etiquette: the management of noise and food smells emerged as specific concerns.

We would like to **create a new forum with employees from across the business who would like to be part of creating a set of guidelines for us all that ensure we share the space and facilities in a respectful way.**

Bike storage and car parking

A higher number of us than anticipated would like to use bike storage in the new office. Our original estimation was based on the travel survey carried out in January.

If bespoke bicycle cages are required, it is likely that two parking spaces would be required to house this number of bikes (currently one cage has been budgeted for). We need to understand a bit more about how the storage will be used, so **those of us wishing to use bike storage will be asked to indicate which days of the week they anticipate needing bike storage** so the project board

can accurately assess capacity required and make a decision.

A majority of us said that we would require space for hanging, drying and storing clothes. Our new office **layout will include a room or enclosed space to hang / store and dry clothing near the reception.** Depending on the building ventilation systems, we will aim to include a heating facility so wet clothing can be stored and dried.

Next steps

Once again, thank you for all feedback and input to the consultation process – the discussion and information process has really helped shape the fitout process.

Please be assured that a full risk assessment will be done for the new office and we will continue to adhere to Scottish Government guidelines.

The next steps are expected to be:

- 1. Finalising the lease negotiations** – mid September
- 2. Formally announcing the new office location** – following signing of lease
- 3. Reviewing active travel arrangements with staff** – mid September
- 4. Facilitating staff visits to the new office** – September to December
- 5. Finalising the layout and branding; agreeing and costing options** – end September
- 6. Finalising specifications and inviting quotes for the works to be undertaken** – start October
- 7. Undertaking fitout works and installing fibre broadband links** – October and November (this will include the discussions with QPark to enable fitout of cycle facilities)
- 8. Arranging pack up of Bells Brae and move to Quatermile 2** – November
- 9. Formal opening of new office** – December