

Bruce Crawford MSP
The Scottish Parliament
c/o Clerk to the Committee
Room T3.40
The Scottish Parliament
EH99 1SP

18 February 2016

Dear Mr. Crawford

DRAFT LETTER TO DEVOLUTION (FURTHER POWERS) COMMITTEE

Thank you for your letter of February 8th, in response to which I am happy to provide the Committee with clarification on the questions you raise about how The Crown Estate works at present.

Firstly, in relation to maintaining an 'estate in land', it is important to recognise that the settlement that underpins the Crown Estate distinguishes between the treatment of revenue (which would, for example, include rental income from leases) and the treatment of capital (which covers, among other things, payments received for assets that are sold).

In the case of revenue, after deducting operating costs, this is paid to the UK Consolidated Fund and is available to Government. This does not then form part of the Crown Estate and is not available for reinvestment.

In the case of capital on the other hand, ownership of the underlying assets (the land and property we manage) and the capital receipts arising from those assets lies with the Monarch. In managing the underlying assets, the Crown Estate Commissioners (the Commissioners) are under a duty to ensure that capital is properly accounted for and remains part of The Crown Estate itself. This is achieved in two principal ways:

1. Immediate reinvestment in new property assets or enhancing existing property assets, with these new/enhanced properties forming part of The Crown Estate.
2. Placing the capital receipts in the 'capital cash reserve' until such capital can be redeployed back into property assets.

Capital is regularly recycled, although there is no fixed time limit for how long the cash raised from the sale of assets can be held - this depends on the property market and what opportunities are available based on our investment strategy. As referenced above, that cash is held in accounts (or may be invested in Gilts) in the name of the Commissioners and the interest from that cash is treated as a revenue receipt and is therefore included in the calculation of the sum which is paid into the UK Consolidated Fund.

There is usually a constant flow of capital into and out of The Crown Estate's capital cash reserves, with a permanent minimum amount retained at all times. In this way we can ensure that there are sufficient capital cash reserves to cover capital expenses at all times. This is of critical importance to us, as I'm sure you are aware that we are unable to borrow, even to cover working capital.

In relation to your second question, the duties placed upon us derive from the Crown Estate Act 1961. This requires the Commissioners to maintain the 'estate in land', referred to above, with *'such proportion of cash or investments as seems to them to be required for the discharge of their functions'*. Commissioners are charged with maintaining and enhancing the estate's value and the return obtained from it, but *'with due regard to the requirements of good management'*.

In practice, this requires us to operate a commercial business. We make sure that the land and property we invest in and manage are sustainably worked, developed and enjoyed to deliver the best value over the long term.

To meet these obligations, we have taken an approach that grows the value of assets over the long term and on a basis which is economically, socially and environmentally sustainable. In this sense, our commercial success depends on the success of our customers and the economic wellbeing of the communities with which we work. This extends to our management of assets which have Scotland-wide significance for sectors such as offshore renewables, aquaculture, tourism, agriculture and forestry.

Across the portfolio, the partnerships we have with customers and other stakeholders, and the expertise we have built up within our team, are central to how we do business.

More information about our approach is available in our 2015 Scotland Report, which is available at www.thecrownestate.co.uk/media/476238/scotland-report-2015.pdf.

Please feel free to contact me if you require any further information.

Yours sincerely,

Alison Nimmo
Chief Executive