THE CROWN ESTATE

Brilliant places for our customers

The Crown Estate
Integrated Annual Report and Accounts 2018/19

Contents

To The Queen's Most Excellent Majesty

May it please Your Majesty, The Crown Estate Commissioners take leave to submit this, their sixty-third Report and Accounts, in obedience to sections 2(1) and 2(5) of the Crown Estate Act 1961.

Front cover image:
One Heddon Street and Ziggy Green café, central London.

About this integrated report

An integrated report is aligned with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. In the opinion of the Board, our 2018/19 Integrated Annual Report is in alignment with the International Integrated Reporting Council (IIRC) Framework. To read more about our integrated reporting ambitions for the future including our Performance Against Capitals report visit: thecrownestate.co.uk/annual-report

The Crown Estate Integrated Annual Report and Accounts 2018/19 presented to Parliament pursuant to sections 2(1) and 2(5) of the Crown Estate Act 1961. Ordered by the House of Commons to be printed 24 June 2019. HC 2257

Assurance

KPMG LLP has provided independent limited assurance over selected data highlighted in this report with this symbol Δ, using the assurance standard ISAE 3000 and, for selected greenhouse gas data, ISAE 3410. KPMG has issued an unqualified opinion over the selected data.

KPMG's full assurance statement is available on our website, together with our Reporting Criteria, which should be read in conjunction with assured data in this report: thecrownestate.co.uk/reporting

"Moving to the inspirational One Heddon Street has been transformational. As a dynamic technology-led business, we needed an office that would facilitate networking and impress prospective clients. The Regent Street location and in-house community programme really deliver on this."

Nick Ellsom
Founder, Fast Thinking

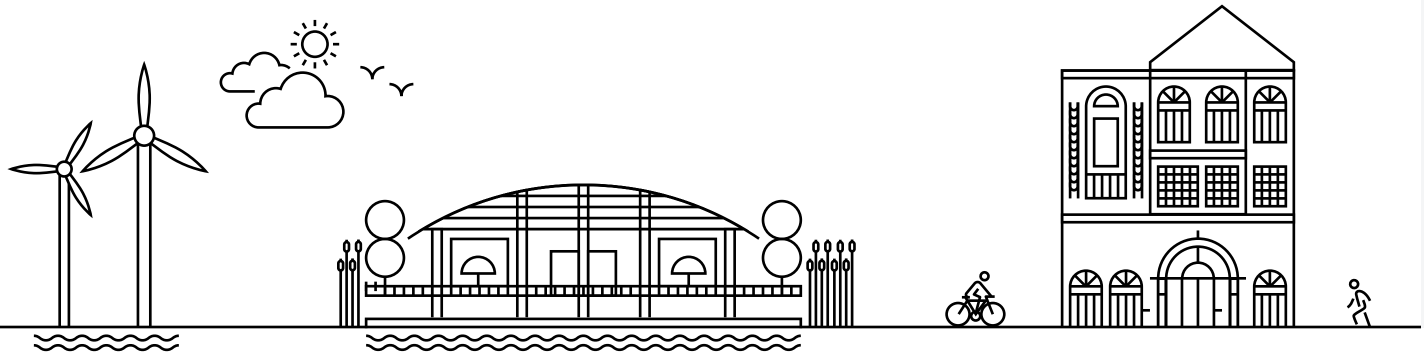
Creating brilliant places through conscious commercialism

The Crown Estate is a £14.3 billion UK real estate business with a portfolio unlike any other.

This includes some of central London’s best places to work, shop and spend time, and vibrant retail and leisure destinations across the country.

As the manager of the seabed around England, Wales and Northern Ireland, we play a role in the UK’s world-leading offshore wind sector. Our coastal holdings include around half the foreshore and we have a substantial rural portfolio. We are also responsible for the Windsor Estate, including Windsor Great Park.

In everything we do, we are driven by a clear purpose: brilliant places through conscious commercialism. This means taking a long-term view, considering what we do from every perspective, and working in partnership with customers, communities, partners and our supply chain to deliver positive outcomes for all.



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Highlights of our year

This year we have been busy delivering new destinations, enhancing our spaces and getting closer to our customers and communities, as well as creating new opportunities for our places and people to grow.

Launching One Heddon Street

We launched One Heddon Street, our first dedicated co-working and flexible office space in the heart of the West End. One Heddon Street is designed for small businesses and entrepreneurs, and is the first in a series of new products that will provide a greater level of service and enhanced experience for our customers.

Read more on page 21

Expanding Rushden Lakes

We have almost doubled the size of Rushden Lakes, our retail and leisure destination in Northamptonshire. Working alongside the local community and with our stakeholders, we launched three further phases, welcoming 20 new customers, broadening the retail and restaurant offer and introducing a range of experiences, including indoor climbing and adventure golf.

Read more on page 23

Empowering offshore wind

We substantially progressed Leasing Round 4 which has the potential to deliver 7 gigawatts (GW) of new offshore wind capacity. This has been a successful 12 months for the sector, which saw the launch of the Offshore Wind Sector Deal, setting the industry on the path to deliver 30GW by 2030. This would provide affordable clean energy to meet up to one third of the UK's electricity needs.

Read more on page 25

Investing in our people

This year a record 89% of our people said The Crown Estate is a brilliant place to work. We continue to invest in our team, providing opportunities for development and broadening the range of skills and perspectives that will be necessary to deliver the ongoing evolution of our business.

Read more on page 9

Enhancing an important natural asset

Across the Windsor Estate's rich landscape of vast woodlands, ancient trees and diverse heathlands, we have carefully balanced the needs of these natural habitats while welcoming six million visitors during the year. Our environmental work has been recognised by Natural England, with 100% of our Sites of Special Scientific Interest (SSSI) achieving 'Favourable' status, the highest possible conservation rating.

Read more on page 27

At a glance

We actively manage our business to create brilliant places for our customers, partners and communities.

Our **Central London** portfolio includes some of London's most iconic places to shop, work, live and visit.

Our interests extend to 9.9 million sq ft and we are evolving our office, retail and dining destinations and public spaces to meet the needs of today's customers and visitors, ensuring that London remains a thriving world city.

Our 7.2 million sq ft **Regional** portfolio is focused on prime retail and leisure destinations across the country. We tailor our approach at each of our locations, creating vibrant places that people want to explore and which meet the needs of visitors and the local community.

Across our **Energy, Minerals & Infrastructure** portfolio, we play an active role in facilitating the development of the offshore wind, cables, pipelines and marine aggregates sectors.

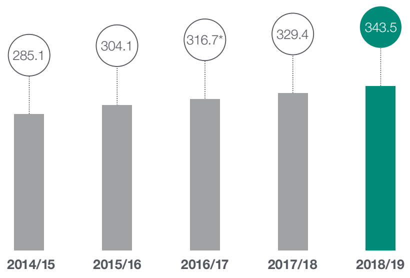
As the manager of the seabed around England, Wales and Northern Ireland, we work in partnership with our customers and stakeholders to support its long-term, sustainable development.

We manage a portfolio of rural land, around half of the foreshore, and the 15,800 acre **Windsor Estate** which includes Windsor Great Park. We ensure that the land we own is sustainably worked and managed, creating value for our customers and visitors.

Net revenue profit £m

£343.5m

+4.3%

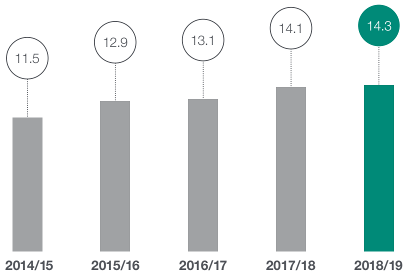


*Excludes discontinued operations.

Total capital value £bn

£14.3bn

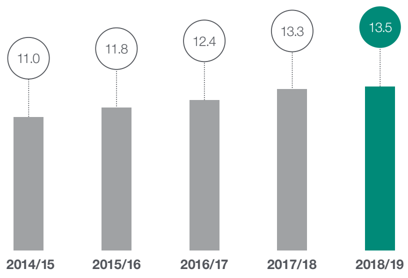
+1.7%



Total property value £bn

£13.5bn

+2.1%



Total Return

8.0%

Outperforming our MSCI bespoke total return benchmark of 5.4% on a three-year rolling basis (2017/18: 11% against the benchmark of 8.2%)

Capital: Physical Resources, Our Know-how

Customer satisfaction rating

80.6%

(2017/18: 78%)

Capital: Our Networks

Employee engagement: brilliant place to work score

89%

(2017/18: 88%)

Capital: Our People

Improvement year-on-year in carbon emissions intensity

+15.4%$^{\Delta}$

(2017/18: +10.8%)

Capital: Natural Resources

Improvement in Health and Safety Incident Severity Score against a target of 10%

+9%$^{\Delta}$

(2017/18: +12%)

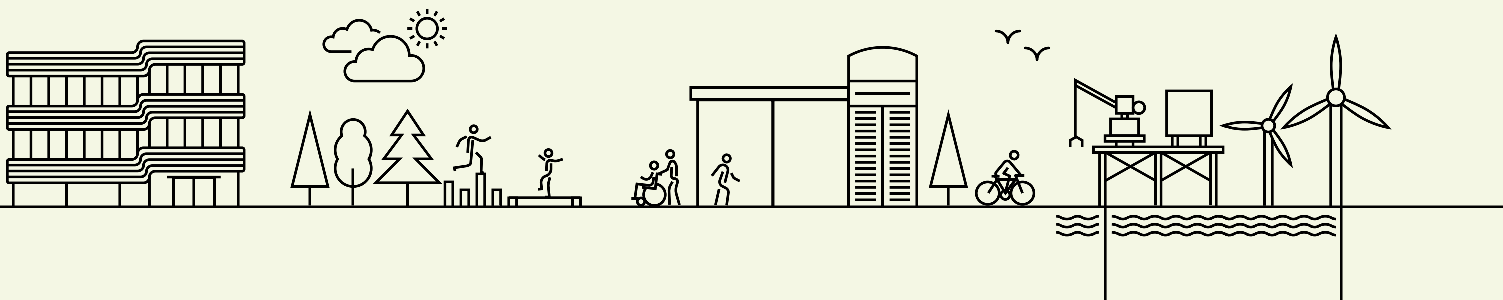
Capital: Our People

Operational offshore wind capacity

7.7GW

(2017/18: 7.5GW)

Capital: Physical Resources



Performance

Our long-term approach to creating value

We believe our success is built on the success of our customers. We put them at the heart of our business and they inform how we invest, develop and manage our assets.

From a clear purpose to consistent outperformance

> "There is no doubt that the future will look very different from the past, as digital technology, evolving consumer preferences and societal trends continue to have a significant impact on commercial real estate."

The Crown Estate has delivered another set of strong results, despite challenging market conditions and continued uncertainty.

We contributed £343.5 million to the Treasury, up 4.3% on last year, bringing our contribution over the past ten years to £2.8 billion. We completed £720.3 million of sales, purchases and capital expenditure and our capital value increased by 1.7% to £14.3 billion.

Our total return was 4.9% compared to the annual MSCI bespoke total return benchmark of 3.1%, our 11th successive year of outperformance. On a three-year rolling basis our total return is 8.0%, versus our benchmark of 5.4%.

Our outperformance was driven primarily by asset management in central London, and offshore wind, with three wind farms becoming fully operational in the year, delivering a total of 1GW of capacity. Our Regional portfolio outperformed relative to its benchmark, though had negative capital growth over the year, reflecting increasingly challenging occupational and investment markets.

We explore the drivers of our performance in the Portfolio review on pages 19-27. We also measure our performance beyond the financials and, in this report, you will see the broader impact we have delivered – for our customers, stakeholders, partners and for the communities which we serve. You can read more about how we engage with all our stakeholder groups on page 59.

Our purpose

Our long-term, purpose-driven approach, creating brilliant places through conscious commercialism, has helped drive our consistent outperformance. As active stewards of our assets, we invest and work hard to create sustainable value for everyone. By doing this in a thoughtful, responsible way we continue to build on our trusted reputation, attract and retain the best talent, and earn our licence to operate.

For several years we've been working to become a truly customer-centred business. And so we were absolutely delighted to win the prestigious Institute of Customer Service Award for Best Customer Experience 2019. Across the business, customer satisfaction levels continue to rise and, since 2017, we have increased our Net Promoter Score (NPS) by 9.2 points. Of course, there's always more to do, and we continue to challenge ourselves and our supply chain to better understand our customers and consumers, what really matters to them, and how we can deliver greater value. We recognise that our places are only brilliant if our customers, and in turn their customers, think they are. So we've continued to balance investment in our existing activities and assets with investing in the future, building new foundations to embed resilience into the business for the long term.

We remain active investors and developers in our core sectors, where we have scale and expertise. In the West End, our capital expenditure on development and investment was £282.2 million, with purchases embedding long-term strategic development opportunities. In the nearer term, our £1.1 billion Central London development pipeline has the potential to deliver up to 850,000 sq ft over the next five years. This year we launched The Marq, a 46,000 sq ft contemporary mixed-use space on Jermyn Street, and the only new office-led development to be delivered in St James's in 2019.

In our Regional portfolio, we completed 210,000 sq ft of new space at Rushden Lakes in Northamptonshire and exchanged agreements for a further 54 acres of land adjacent to the site, securing a significant future development opportunity.

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We also started work on extending and developing Leicester's Fosse Park, which will increase our retail and dining offer by 40%.

The Windsor Estate has had a busy and successful year, not only welcoming over six million visitors, and restoring our protected SSSI landscapes to the highest environmental conservation status, but also providing a stunning backdrop to two royal weddings.

A clear direction in a fast-changing world

We see profound changes taking place in our markets and in the world around us. It's clear that the commercial property sector is changing, and changing at pace. There is no doubt that the future will look very different from the past, as digital technology, evolving consumer preferences and societal trends continue to have a significant impact on commercial real estate.

As a forward-looking business that genuinely thinks long term, we know we must keep evolving so we stay relevant – meeting the changing needs of our customers and of society. This year we've challenged ourselves to think deeply about the future of our business and our competitive advantage.

As a result, we are developing a strategy which will put us on the path to transforming the business from its traditional landlord/tenant roots to become one centred on real estate as a service.

Crucial to its success will be an understanding of how we can help our customers succeed, creating greater value for their businesses and ours. Firmly rooted in our purpose, this strategy brings together our corporate, operations, investment and finance strategies and establishes a clear, long-term direction of travel for our business. More detail on our strategic approach can be found on pages 10 and 64.

Meeting changing consumer needs

Physical stores are now just one element in a brand's multichannel approach to connecting with its customers, and today's most successful destinations look very different from yesterday's. They are becoming more fluid, as visitors seek convenience and quality alongside a diverse blend of experiences spanning retail, leisure, dining and entertainment.

We have continued to invest in our retail destinations, ensuring they meet the evolving needs and aspirations of visitors. We've also worked closely with our customers as they adapt to changing market conditions, improving our understanding of their evolving businesses and how we can best support them. Despite the

£2.8bn

returned to the Treasury over the last decade

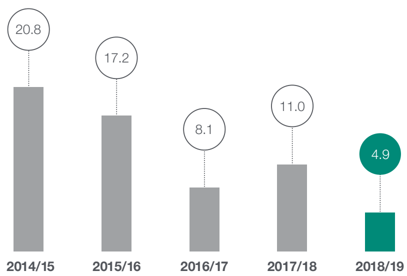
97%

This year our One Voice employee survey results hit an all-time high, with 97% of our people saying they are proud to work at The Crown Estate

Total return %

4.9%

Outperforming our annual MSCI bespoke total return benchmark of 3.1%



Performance
Chief Executive's review continued

ongoing challenges in the retail market, the quality and durability of our destinations have ensured they remain resilient, and we have continued to attract strong demand from new customers.

In our Regional portfolio, we leased a total of 290,000 sq ft of space to 30 customers, and actively managed the impact of retailer Company Voluntary Arrangements (CVA), administrations and downsizing. As a result, voids across our Regional portfolio remain low at less than 3%.

In central London we welcomed 21 retailers and restaurant operators across Regent Street and St James's in the year.

Blending heritage and innovation

Businesses and their staff now expect much more from their spaces and the traditional landlord-tenant dynamic is evolving in many different ways. Across our Central London portfolio we're broadening our range of products and services to suit a wider mix of customers, from start-ups and SMEs wanting managed space to best-in-class headquarters that can flex and adapt to a company's changing needs.

'Space-as-a-service' is emerging as a critical dimension in our relationships with customers. In the future, we will need to be both property owners and service providers, applying our skills, scale, insights and technologies to create world-class environments that deliver clear business benefits for customers and their employees.

One Heddon Street is a great example. This Grade II-listed building, which has been a stable, art gallery, cinema and theatre, has been transformed into a 350-desk flexible workspace for modern, entrepreneurial businesses whose occupancy might last from one day to several years. We're providing an environment that prioritises health and wellbeing, with a focus on exceptional indoor air quality, natural light and a range of amenities for our members, including in-house café Ziggy Green.

This year sees the 200th anniversary of the naming of Regent Street, the elegant backbone of London's West End. As it moves towards its third century as one of the world's great shopping destinations, Regent Street has proved its popularity and adaptability, blending heritage with innovation and quality.

Our awards

- IPE Real Estate Global Awards 2019, Large Real Estate Investor of the Year
- IPE Real Estate Global Awards 2019, UK and Ireland Regional Winner
- PwC Building Public Trust Award for Reporting in the Public Sector
- Revo Re:new Award for Westgate Oxford

We have transformed two of central London's historic arcades – Princes and Quadrant – to create space for new retail concepts and immersive experiences to join an existing line-up of world-class brands.

London's popularity will always bring challenges, with congestion and air quality just two of the urgent issues we face. We've continued to play a central role in helping to create a greener, safer and more attractive city for all. We have led and supported a number of initiatives, such as Wild West End and the Mayor of London's Refill water fountains campaign.

We invested £8 million this year to enhance public spaces across our Central London portfolio, including significant work on Jermyn Street. We also joined TAP London, which uses contactless payment technology to enable charitable donations to help improve the lives of homeless people.

Over the course of the year, we challenged ourselves to think strategically about how we can use our relationships – with customers, partners and our supply chain – to generate an even greater positive environmental, social and economic impact. To support us in doing this we have established a Responsible Business working group.

Unlocking the seabed

It has been another landmark year for offshore wind. The Government's Sector Deal, published in March 2019, set a vision for UK offshore wind to deliver up to 30GW of capacity by 2030 – a fourfold increase in just over a decade. That would mean offshore wind powering almost one third of total UK electricity demand, creating a new era of clean energy and generating up to 20,000 new jobs.

As we continue to progress our plans for Leasing Round 4, which has the potential to deliver a further 7GW of offshore wind capacity, we are working closely with our many stakeholders to ensure the increasingly busy seabed continues to be developed responsibly.

The 1000MW Nemo Link subsea electricity interconnector started operations this year, enhancing energy resilience by connecting the UK and Belgium's electricity networks.

Investing in our team

One of the most valuable investments we've made this year has been in our team, which has grown by 11%. To ensure that we continue to build on our proven strengths, and anticipate future demand, we have focused on developing and broadening our skills and capabilities.

We've added specific expertise in areas such as programme management, technology and data, research and insight, customer relations, placemaking and brand, and created a dedicated Strategy and Business Development team.

This year our One Voice employee survey results hit an all-time high, with 97% of our people saying they are proud to work at The Crown Estate and 89% saying it's a brilliant place to work. Our St James's Market HQ also became Europe's first WELL Platinum Certified office. Read more about this achievement in the Operations review on pages 28-35.

2012-2020 and beyond

This is my eighth and final Annual Report message to you, as I step down as Chief Executive later this year. It has been a privilege to lead this very special business. The Crown Estate now combines the best practices and values of the public sector with the best practices and entrepreneurial flair of the private sector.

In my first Annual Report as Chief Executive I used my statement to establish an ambition for the business, writing that: "We want to build on our current strengths to demonstrate how sustainable growth and a responsible approach to business creates a powerful new business model for the long term."

Driven by that mission, my deeply talented team has achieved remarkable success. Over those eight years, our capital value has increased by £6.2 billion, from £8.1 billion in 2012 to £14.3 billion today. Net revenue profit has grown from £240.2 million to £343.5 million today. Offshore wind was supplying 2.1% of total UK electricity; today that figure is 8%.

I would like to thank the Board for their unwavering support, wise counsel and strategic direction as we've modernised the business and delivered eight years of record results. I have also greatly enjoyed working alongside two exceptional Chairmen, Sir Stuart Hampson and Robin Budenberg, from whom I've learned so much.

As I hand on the baton to my hugely capable successor – Dan Labbad – I look forward to seeing this purpose-driven business and exceptional team deliver yet more success for our very special customers, stakeholders, partners and communities.

Dame Alison Nimmo DBE
Chief Executive

10 June 2019

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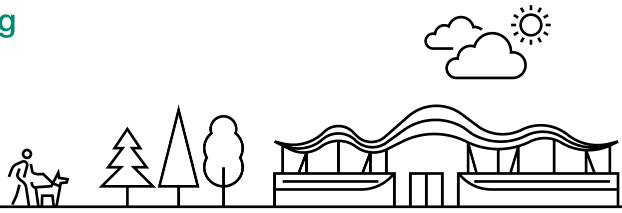
Our People: Our most valuable investment

Our HQ, St James's Market

We have continued to recruit new skills and expertise from outside the traditional real estate sector. These diverse skillsets will be vital in supporting us as we explore the long-term transformation of our business. We invested in our existing team at the same time, creating opportunities for our people to develop and supporting them in furthering their careers. This included our Connected Leaders and Management Development Programmes which are building our future talent pipeline and embedding resilience into the business. Read more about our people online at: thecrownestate.co.uk/annual-report/our-people

Our Corporate Strategy

Our Corporate Strategy establishes an approach to investing, developing and managing our real estate which is focused on our customers.



Our aspiration is to transform ourselves from a traditional property manager and investor, into a customer-centric business that delivers a range of products and services through its real estate.

We believe that building enduring, mutually beneficial partnerships with our customers is the best route to ensuring their success and, in turn, embedding resilience into our business.

This year, to complement our established approach to managing, developing and investing in real estate, our Corporate Strategy also sets out the principles that will help to achieve a longer-term transformation.

This means actively considering the breadth and diversity of skills that we require; ensuring we have the most effective relationship with our partners and supply chain; investing further in technology, data and digital tools; and reconsidering our governance and processes to ensure they are optimised to deliver the best customer experience.

In a real estate context we will continue to focus on mixed-use assets in the West End, retail and leisure-focused destinations across the country and to enable the future of offshore wind. In doing so, we continue to refine our ways of working to ensure that we understand and are responsive to customer needs.

Our strategy is grounded in our purpose, building upon the positive role that we play in society and our commitment to acting responsibly.

Our purpose

Brilliant places through conscious commercialism

Brilliant places help our customers achieve their goals. They are places our customers want to work in, where businesses choose to invest, spaces that people want to visit and where local communities thrive.

Conscious commercialism describes our approach to doing business and managing our portfolios, and the way in which we deliver positive impacts for our customers, partners, communities and the environment.

Our Corporate Strategy

Our Corporate Strategy establishes an approach to investing, developing and managing our real estate which is focused on our customers.

This approach is informed by our strategic review of risk and opportunity. It will be enabled by investment in our operational capabilities, ensuring we have the right skills and culture to deliver success and building partnerships with our customers and supply chain.

Our four strategic objectives:

- **Actively manage our assets to drive sustainable outperformance against our commercial targets**
- **Build ever stronger relationships through high levels of customer and partner satisfaction, loyalty and recommendation**
- **Nurture a high-performance culture and reputation as a brilliant place to work**
- **Be a leading responsible and resilient business which thinks long term**

See pages 12-13

Our business model

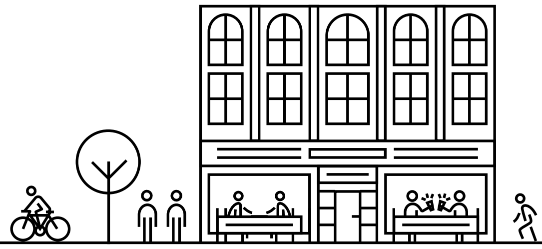
We specialise in sectors where we have critical mass and expertise, enabling us to realise our competitive advantage and outperform the market.

We are focused on achieving our financial and non-financial targets through the investment, development and management of real estate to meet our customers' needs, while being conscious of our wider impact on our stakeholders, communities and the environment.

See pages 14-15

Our material issues

Understanding and addressing the issues which are most pertinent to the resilience of our business is critical to our long-term success.



Changes to the way people work and spend their time

The ways that people work and choose to spend their time continue to evolve, and this has a significant influence on our offer and our continued ability to ensure that our customers can achieve their goals.

Reputation and trust

The trust of our stakeholders, customers, partners and wider society, alongside the reputation of our brand, is fundamental to our ability to operate successfully and deliver through our value chain.

Impact of technology and data on the business

Technology is driving change in our world, challenging traditional models and ways of working across our markets, as well as bringing new opportunities to deliver enhanced products and improved customer experiences.

Availability of skills and talent

With increased competition for the best skills and talent, it is essential that we are able to attract and retain a diverse range of skills and expertise; and that our customers and partners can do the same.

Strategic relationships

The strength of our relationships across our supply chain is critical to our business. Our strategic joint venture and service delivery partnerships are central to how we access capital, manage and grow our business.

Health of the economy

The health of the economy impacts on our business, as it influences customer demand and their ability to pay for our products and services. Political uncertainty, including Brexit, also impacts our capacity to achieve sustainable long-term growth.

London's place in the world

Given our extensive central London holdings, the capital's position as a thriving world city and an attractive place to live and work, is crucial to our future success.

The natural environment

Our ability to deliver on our purpose is impacted by our planet's finite resources, growing population and the consequent pressure on our climate, as well as on the natural and built environments.

Government policy and constitutional change

Changes to the constitution, Government policy and regulations influence our operational portfolios and the markets within which we operate.

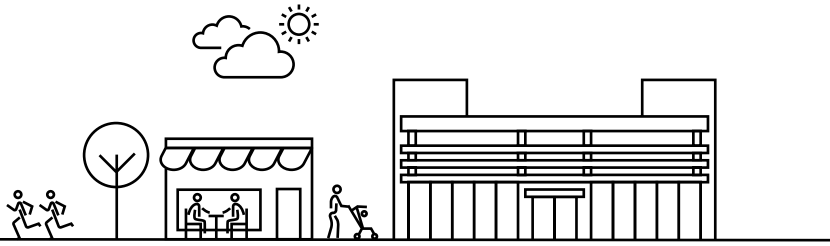
In identifying our material issues we consider a broad range of factors affecting our business, including global trends such as technological advances, demographic change, the health of the economy and climate change. The resulting material issues are those which we consider as having the potential to materially impact our current and future strategy.

Our material issues exercise is an integral part of our strategy development. The risks and opportunities arising from the assessment of our material issues inform our evolving strategy and its implementation through the activities in the business model.

This exercise is complemented and challenged by external expertise. This means we can capture a breadth of perspectives from our customers and stakeholders, as we believe it helps us to embed resilience into our Corporate Strategy.

More detail on the process we undertake to define our material issues, and how this fits into our strategic architecture, can be found on pages 42-43.

Our objectives and KPIs



Actively manage our assets to drive sustainable outperformance against our commercial targets

We have two key commercial targets, agreed with the Treasury, which underpin our strategy:

- to increase our net revenue profit at an agreed rate, measured on a three-year rolling basis
- to outperform our MSCI bespoke total return benchmark on a three-year rolling basis.

2018/19 target

- 5% annualised growth in net revenue profit on three-year rolling basis*

*Our net revenue profit target has been revised in agreement with the Treasury to 4% for 2019/20 and 2020/21, see page 38 for more information.

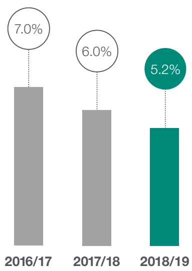
2018/19 target

- Outperform our MSCI bespoke total return benchmark on an annualised three-year rolling basis

How did we perform this year?

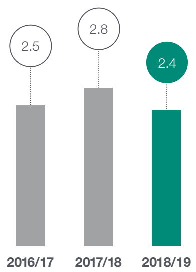
5.2% A

Three-year rolling growth in net revenue profit on an annualised basis



2.4 percentage points A

Relative outperformance on three-year rolling annualised basis (percentage points) of bespoke total return benchmark



Priorities for 2019/2020

- Meet our revised net revenue profit target
- Outperform our MSCI bespoke total return benchmark
- Continue to develop customer-centric strategies across our business
- Progress key activities, including Leasing Round 4 and the development pipeline in Central London and Regional, in line with our business model.

Nurture a high-performance culture and reputation as a brilliant place to work

Through nurturing a high-performance culture we are creating an environment that attracts and retains the best people.

Our annual One Voice survey tracks employee engagement, enabling us to identify both strong performance as well as areas for improvement. We measure this against a UK national benchmark which includes organisations judged to have superior financial and people management practices.

2018/19 target

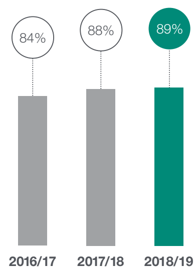
- Outperform UK national benchmark for employee engagement. The benchmark for 2018/19 was 77%*

*Willis Towers Watson.

How did we perform this year?

89% A

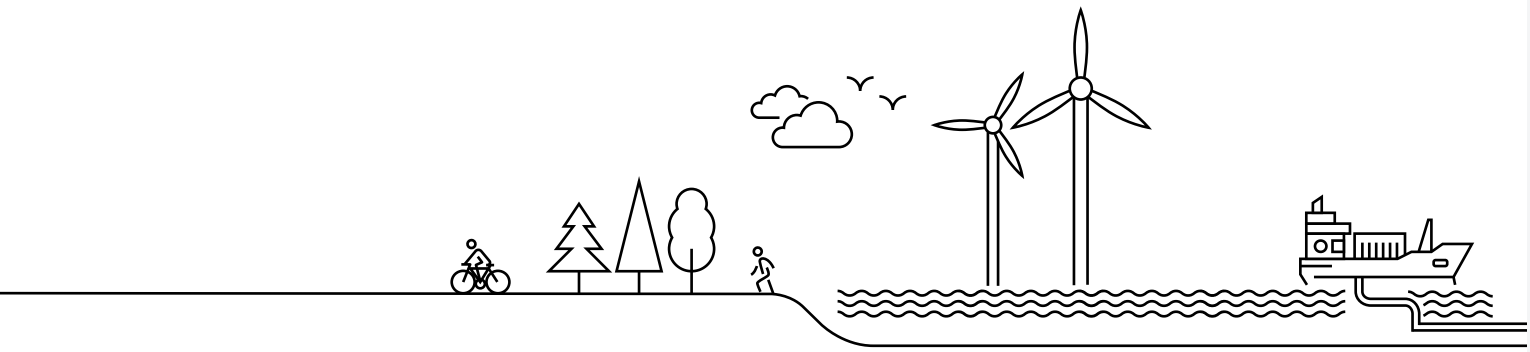
Employees who consider The Crown Estate to be a 'brilliant place to work'



Priorities for 2019/2020

- Continue to outperform the UK national benchmark for our staff engagement survey
- Continue our focus on learning and developing talent
- Invest in new skills and expertise, particularly around digital, research and insight and customer experience
- Enhance the employee experience.

Key
- Ⓐ Achieved
- Ⓞ On track
- Ⓜ More to do



Build ever stronger relationships through high levels of customer and partner satisfaction, loyalty and recommendation

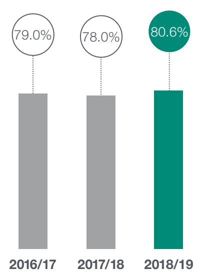
Customer experience is at the heart of our approach, driving excellence in how we do business. We undertake regular customer engagement surveys to better understand our customers and anticipate future trends. We work alongside our partners and customers to implement our findings.

2018/19 target
- Outperform the Institute of Customer Service benchmark of 78.1%

How did we perform this year?

80.6% Ⓐ

Customers who are 'satisfied' or 'very satisfied' across the portfolio



Priorities for 2019/2020
- Outperform the Institute of Customer Service cross-industry benchmark
- Deliver improved customer experience that reflects the evolving needs of our customers and changing world around us
- Develop a better understanding of customer journeys across all of our business activities
- Ensure we have the necessary culture, people, training and processes to deliver enhanced customer service.

Be a leading responsible and resilient business which thinks long term

We aim to create value beyond financial return through acting responsibly and sustainably in everything we do. We work to our environmental and social aspirations and seek to understand our broader impact, while implementing robust systems that drive efficient and effective operations, including health and safety, governance and crisis preparedness.

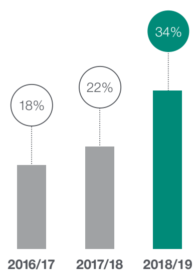
2018/19 target
- Reduce carbon emissions intensity by 40% against the 2012/13 baseline for property under direct control, by 2022/23

2018/19 target
- 10% improvement in Incident Severity Score compared with 2017/18 (injury-related and significant near misses)

How did we perform this year?

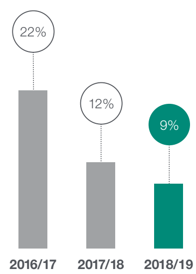
15.4%$^{\triangle}$ Ⓞ

Improvement on 2017/18, bringing us to a 34% improvement against the 2012/13 baseline



9.0%$^{\triangle}$ Ⓜ

Improvement in Health and Safety Incident Severity Score representing a 1%$^{\triangle}$ underperformance against the target



Priorities for 2019/2020
- Develop our strategic approach to sustainability, responsibility and community through our Responsible Business working group and with the Board
- Review our energy efficiency trajectory to ensure achievement of our carbon intensity target
- Enhance visible leadership in health and safety through safety leadership tours and clear health and safety aspirations to demonstrate our commitment internally and externally.

Our business model

Our business model enables the delivery of our purpose, brilliant places through conscious commercialism.

It defines our approach to doing business: taking a long-term view, working in partnership with our customers and creating destinations that are relevant, attractive and profitable.

We specialise in sectors where we have critical mass and expertise, focusing our activities on where we can generate a competitive advantage and outperform the market.

Our principal focus is on achieving our financial and non-financial targets, and doing so while being conscious of our wider impact on our stakeholders, communities and the environment.

What we do

We create brilliant places where people want to be. We believe this approach will deliver enduring returns over the long term.

Investment

We buy assets throughout the market cycle where we have the scale and expertise to generate outperformance. We sell assets to recycle capital into the business, funding future acquisitions and our development pipeline.

Development

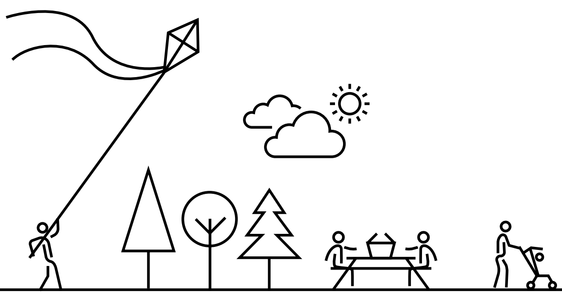
Our development activity focuses on future opportunities within our principal sectors. Our aspiration is to develop brilliant places and attractive destinations that are responsive to the needs of our customers, visitors and communities.

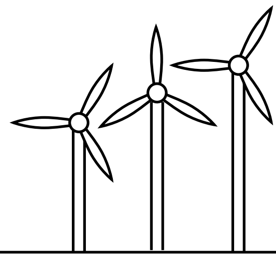
Management

We aim to deliver exceptional service and create great experiences. Working alongside our customers, we look to refine and improve our offer in response to their needs and business objectives.

Reinvestment into the business

We access capital to invest in our portfolios, both through strategic partnerships and the sale of assets where we have completed our asset management plans.





What we rely on

We draw upon six capitals to deliver in line with our business model.

The value we create

Beyond meeting our income and total return targets we also consider the wider value we deliver against each capital.

Financial resources
Financial capability to run our business.

£343.5m
4.3% year-on-year increase in net revenue profit

Physical resources
Property, plant and equipment we own and use.

£397.1m
capital spent on acquisitions, developments and capital improvements

Natural resources
The natural resources that we manage and use.

54%
operational waste recycled

Our people
The skills and experience of our employees.

97%
employees 'proud to work' for The Crown Estate

Our know-how
Our collective expertise and processes.

20 hours
average training per employee p.a.

Our networks
Our relationships with stakeholders including customers, partners and communities.

£2.4bn
funds managed on behalf of our strategic joint venture partners

Our contribution to the Treasury

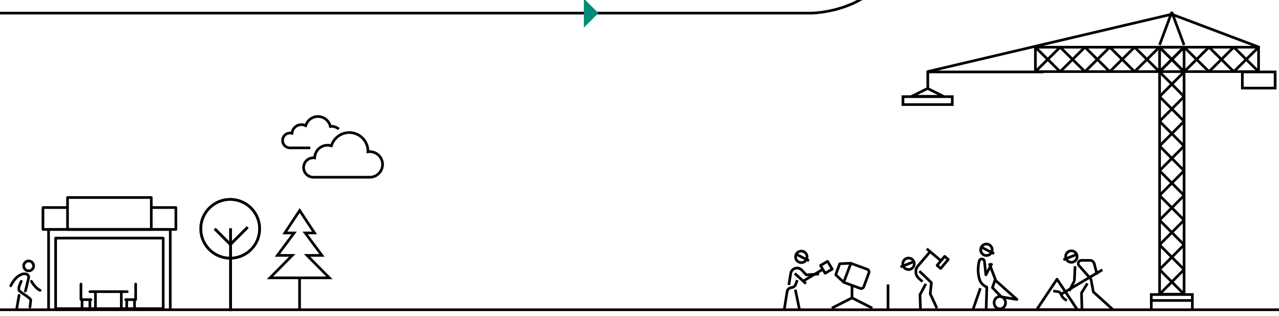
Our annual net revenue profit is paid to the Treasury.

£2.8bn
generated for the Treasury in the last ten years

Impact measurement

Total Contribution applies economic multipliers to a number of non-financial metrics in order to create a comparable assessment of outcomes. A number of metrics are included in this report.

See our Total Contribution methodology
thecrownestate.co.uk/total-contribution



Markets and portfolio review

4.9%
Total return
Outperforming our MSCI bespoke total return benchmark of 3.1%

£20.2m
Revenue from new lettings
130 new lettings in Central London and Regional this year

Last year I wrote about the importance of embedding resilience into the business and how it was central to our long-term success.

This year, with growing political and economic uncertainty and in challenging occupational markets, our real estate portfolios have proven to be remarkably resilient, reflecting both their underlying quality and our specialist management.

For the 11th consecutive year we outperformed our MSCI bespoke total return benchmark, delivering total returns of 4.9% against our bespoke benchmark of 3.1%. Outperformance was driven by acquisitions and asset management in central London and the continued growth of our offshore wind business. On a three-year rolling basis our total return is 8.0% against the bespoke benchmark of 5.4%.

We know there are structural issues impacting upon our business – the changing nature of the workplace, evolving consumer preferences and the transformative impact of digital technology are changing the way that people use and experience real estate. We have a clear strategy, focused on our core sectors, where we have the critical mass and expertise to generate long-term outperformance and create value for both us and our customers.

It has been a challenging year for the retail sector with a number of retailers entering into CVAs or administration. In our Regional portfolio, we have worked with all of our customers to mitigate the impact on both their businesses and ours. Despite these challenges, we have leased over 290,000 sq ft of space and our occupancy rate for the Regional portfolio remains in excess of 97%.

In central London, we welcomed over 100 businesses to the West End and leased over 170,000 sq ft, the majority of which was to office customers in a market that continues to perform strongly.

We also completed The Marq, a 46,000 sq ft office-led development, and launched One Heddon Street, our first flexible and co-working space. Looking to the future, we progressed plans for phase two of St James's Market in partnership with Oxford Properties Group and invested over £230 million in three acquisitions that embed strategic development opportunities.

Outside of London, we completed three further phases of development at Rushden Lakes and agreed to acquire 54 acres to the west of the site to progress future mixed-use opportunities. At Fosse Park, we began work on a £168 million retail and dining-led extension.

Finally, this year has also been significant for our offshore wind business as we continue to develop and refine our plans for Leasing Round 4. This will be the first offshore-wind leasing round in over a decade and aligns with the Government's commitment to support development of up to 30GW of capacity by 2030.

Paul Clark
Chief Investment Officer

Our markets

Regent Street, London
Flags by artist Joe Tilson decorate Regent Street to celebrate the 250th anniversary of the Royal Academy of Arts.

Uncertainty around our exit from the European Union has continued to dominate the national conversation over the last 12 months.

Confidence among the business community remains subdued and the UK economy faces a range of challenges in the near future.

However, we have seen a more mixed picture over the year in our real estate markets. Investment activity in London has remained strong and the West End office occupational market has once again proven to be resilient. Retail markets, both in the West End and particularly outside of London, continue to face structural challenges that have negatively impacted values and placed rents under pressure, with many retailers entering administration or CVAs.

Investment markets

Over the year, investment volumes remained above long-term historic averages, although were down year-on-year. Yields have been broadly stable in central London, but inevitably, given the weakness of the occupational market, they have moved out in the retail sector. Deal frequency has declined, most likely owing to continued uncertainty arising from the UK's exit from Europe and some understandable caution concerning the longevity of the current extended investment cycle.

At a sector level, regional retail property values came under significant pressure, though office markets in central London showed modest growth and the impressive bull-run for industrial stock continued, particularly in the south-east. The alternatives sector also continued to attract interest, with values increasing by nearly 10%, and growth slowed across the majority of residential markets, particularly at the prime end in central London.

From an industry-wide perspective, UK real estate remains popular with overseas investors, who benefit from attractive relative pricing and continue to see the depth, liquidity and transparency of our markets as a secure destination for their capital in the long term.

Occupational markets

Central London

Despite the prevailing political and economic context, London continues to present an attractive destination for businesses to locate. Take-up remains above the ten-year average, prime rents increased marginally on last year and vacancy is down, though that in part reflects reduced levels of supply.

2018 saw the lowest number of speculative development starts in the last three years, though half of the space due to complete in 2019 is already pre-let.

In the West End, the lack of supply has been matched by robust demand for the available stock and, as a result, leasing for all sizes of floorplates has been surprisingly positive.

We believe there are sufficiently strong underlying market fundamentals to protect against significant downside risk and we expect to see continued rental growth over the next 12 months.

In a retail context the picture in the West End is far more mixed. London is not immune to the structural issues, cost pressures and macro trends impacting upon the retail sector. The capital has the country's second highest rate of restaurant and bar closures and a number of retailers are looking to close, downsize or put their stores on the market.

Property research company PMA is forecasting negative rental growth across prime central London retail for the next three years. The availability of labour and rising occupational costs, particularly from business rates, are likely to put retailers under further strain in the short term.

Despite these challenges the market remains active. While retailers are increasingly discerning about the space they seek and terms they will accept, they will be buoyed by strong overseas spending and consistent levels of footfall across the West End.

Retail out-of-town

The last 12 months have continued to be challenging in the out-of-town retail sector. As a result of an increasingly competitive market environment, limited consumer confidence and increasing cost pressures, a number of retailers have entered into CVAs or administration.

More broadly, structural challenges continue to impact the sector; technology has made purchase journeys more complex, consumers are more empowered and their preferences are also changing rapidly. In response, retailers are having to adapt their business models, invest in omnichannel and optimise their store networks.

While we expect the market to remain challenging in the near term, we retain confidence in the long-term durability of dominant out-of-town destinations. In the future, successful destinations will need to be well located, effectively embedded and curated to the needs of the local community with a broad range of uses, experiences and reasons to visit. The most successful occupiers will innovate and evolve in response to digitally native consumers that operate seamlessly across multiple channels and seek a variety of experiences.

Performance
Our markets and portfolio review continued

Occupancy rate

95%

across our Central London and Regional portfolios at March 2019

Offshore wind operational capacity

7.7GW

An increase of 0.2GW$^{\Delta}$ in 2018/19

Agriculture

For the third year in a row average agricultural land values fell, with outward yield shift reflecting a diminishing interest among buyers for both vacant and let land. Nearly 200,000 of let land was publicly marketed during the course of the year which, while a small increase on 2017/18, is still a fraction of the UK market overall.

Evidence of rent review activity in 2018 is limited and prospects for rental growth remain muted, reflecting the challenging economic environment within the sector.

Energy policy

Over the course of the year, the political, economic and regulatory environments that support the future growth of the offshore wind sector have become much clearer, following the publication of the joint Government and industry Sector Deal in March.

The Sector Deal established an ambitious shared vision for UK offshore wind, setting it on the path to deliver 30GW of capacity by 2030, a fourfold increase in just over a decade. This has the potential to meet approximately one third of the UK's total electricity demand, as well as creating jobs and opportunities for communities right across the country.

The Government also provided greater clarity on financial support through Contracts for Difference (CfD), pledging £557 million in support of future rounds, ahead of the third CfD allocation round which opened in May 2019. The Government has committed to hold a further allocation round in 2021 and approximately every two years thereafter. These auctions have the potential to deliver up to 2GW of offshore wind each year over the next decade.

Finally, following the publication of the Sector Deal, the Committee on Climate Change published its 'Net Zero' report in May 2019, reassessing the UK's long-term emissions targets in response to a request from Government. The report recommends a target of net-zero greenhouse gas emissions for the UK by 2050 and outlines a potential scenario where as much as 75GW of offshore wind is operational by the end of that period.

Blyth offshore wind farm
Work takes place on the concrete gravity base foundations for EDF Renewables' offshore wind turbines in Blyth.

Portfolio review

Revenue by portfolio 2018/19

£488.5m

+2.5% (2017/18: £476.7m)

Portfolio	Revenue	% of whole
1 Central London	£241.7m	49.5
2 Regional	£125.4m	25.7
3 Energy, Minerals & Infrastructure	£74.7m	15.3
4 Rural & Coastal incl. Windsor Estate	£46.7m	9.5
Total*	**£488.5m**	

*Excludes service charge income of £27.0m (2017/18: £30.2m).

Note: All figures are prepared on a proportionally consolidated basis.

Property value by portfolio 2018/19

£13.5bn

+2.1% (2017/18: £13.3bn)

Portfolio	Value	% of whole
1 Central London	£8.2bn	60.7
2 Regional	£2.3bn	17.0
3 Energy, Minerals & Infrastructure	£1.6bn	11.9
4 Rural & Coastal incl. Windsor Estate	£1.4bn	10.4
Total	**£13.5bn**	

The Marq, St James's
Our new office, retail and restaurant development, featuring gold artwork inspired by the dropped threads of Jermyn Street's tailors.

Central London

Our Central London portfolio offers an exceptional depth of opportunity. The scale, quality and contiguous nature of our ownership provides a unique platform for us to deliver value for our customers, growth for the city and positive impacts for our local communities.

This year, we refined our long-term vision for the future of our central London business, with customers at the heart of all we do. Our approach is enabled by our ambitious £1.1 billion development pipeline, through which we plan to deliver up to 850,000 sq ft over the next five years.

We were active in the capital markets, with capital activity totalling £324.9 million in the year. Purchases and capital expenditure totalled £282.2 million, with disposals of £38.4 million. We continue to make acquisitions throughout the cycle where we see the potential to deliver long-term opportunity and return.

This has, however, been a challenging 12 months in some of the occupational markets, with retail and dining impacted by the health of the economy and changing consumer behaviour. These difficult conditions, in addition to recently completed developments, have accounted for an increase in the void rate for our Central London portfolio, from 3.9% to 5.5% over the year.

Despite these headwinds, we have signed over 100 businesses to the Central London portfolio, leasing in excess of 170,000 sq ft of space across Regent Street and St James's.

We continue to strengthen our relationships with our customers, supporting them as they adapt to evolving market conditions and developing products and services that add value to their businesses.

Investment

Our acquisitions during the year embedded future redevelopment and refurbishment opportunities, with a particular emphasis on extending our ownership in side streets across the portfolio.

We extended our partnership with Norges Bank Investment Management (NBIM) who participated in all three of our major investments on Regent Street: the £115 million headlease acquisition of 30 Warwick Street, the freehold acquisition of 56-60 Conduit Street for £66.5 million and the headlease purchase of 61-65 Conduit Street for £51 million.

Development

We remained active developers throughout the year, completing on 100,000 sq ft of new space. This included the refurbishment of Princes Arcade and Quadrant Arcade, which together delivered 20 new retail units.

We have another 105,000 sq ft currently under construction, including our residential-led Morley House development, north of Oxford Circus, which will deliver 44 new rental apartments on Regent Street.

Building on our strategic relationship with Oxford Properties Group, and the success of the first scheme, we brought forward plans for phase two of our St James's Market development. We will create a new office, retail and dining destination with public space at its heart, serving the needs of local people and visitors.

As part of our estate-wide approach, and linked to the second phase of St James's Market, we also progressed plans for 33 Vauxhall Bridge Road, a regeneration of a listed building in Pimlico which will create 31 new homes.

Workplace

We welcomed 36 new office customers to the portfolio this year, including at the newly refurbished 15 King Street and 17 Waterloo Place. In total, we leased almost 130,000 sq ft of office space, generating rental income of £10.5 million.

At Vine Street and Rex House we worked with customers to reshape accommodation to meet their evolving requirements, including an expanding business where we enabled them to upsize within their current building.

Central London continued

We continued to deliver high-quality HQ office space with the launch of The Marq in spring 2019. This 46,000 sq ft office, retail and restaurant development, located on historic Jermyn Street, is the only new office development to launch in St James's during the year.

We also launched One Heddon Street, a 350-workstation, flexible and co-working space, which we are operating ourselves. This has enabled us to own the customer relationship, expanded our capabilities and equipped us with knowledge and new skills which are informing our future product development.

The Marq and One Heddon Street both reflect our commitment to creating places which support good health, wellbeing and productivity. One Heddon Street is set to be the world's first co-working space to achieve WELL Certification from the International WELL Building Institute, while The Marq is on track to be one of the first UK buildings to achieve WELL Certification for core and shell.

Retail

This year, we welcomed 14 permanent new retailers, generating a rental income of £1.8 million in line with March 2018 estimated rental value (ERV). Lease renewals generated a further £3.3 million of rental income, representing an increase of 6% against previous rent.

Across Regent Street and St James's, we have diversified the retail offer, introducing new concepts such as Showcase, which brings together rotating collections from young British designers, and Glowbar, which brought wellness-focused infrared saunas to the UK for the first time.

We are excited that Microsoft will open the doors of its first flagship store in London on Oxford Circus in July 2019. This experience-led destination is designed to be a hub for the community, bringing people and businesses together through a range of events and experiences.

We have also built on existing customer relationships, with the launch of H&M Home, the Swedish group's seventh brand within our portfolio, and extended Sandro's presence with its menswear store. We have continued to bring in new international brands, with Italian skiwear specialist Colmar, French eyewear from Jimmy Fairly and Swedish trainer brand Eytys all joining us this year.

We have collaborated with customers to explore greater flexibility and new ways of using our spaces. At Princes Arcade, we have established a permanent pop-up space which allows brands to test physical retail before making a long-term commitment. On Regent Street, Google created an immersive brand experience, The Curiosity Rooms, enabling them to connect with people around the launch of the new Pixel 3 mobile phone.

Residential

This year, we launched 12 Sherwood Street, our largest residential development to date, with all 48 of the apartments let within four months. We also launched a digital platform for residents, offering direct access to local services and amenities. This digital trial will inform our approach at Morley House where we will launch 44 new apartments in summer 2020.

Placemaking

We want to deliver brilliant spaces that benefit people across the whole of the West End and this year we have invested £8 million. Our focus is on increasing the amount of public space, improving air quality and enhancing the visitor experience.

On Jermyn Street, working in partnership with Westminster City Council, we have completed a project which has improved the public realm: decluttering the street, prioritising pedestrians and enhancing the overall environment.

While at St James's Palace forecourt and Cleveland Row, again in partnership with Westminster City Council and working with key local stakeholders, we have more than doubled the amount of pedestrian space and improved the movement of vehicles.

We have also continued to support the natural environment through Wild West End, nurturing green spaces across the portfolio to increase biodiversity, improve air quality and enhance urban cooling. This included the trial of two innovations at our Morley House development: the Vertical Meadow, a temporary living green structure for construction sites; and The Breath, a pollution-absorbing wrap which captures airborne particulates.

To support London's place in the world as a global visitor destination, we launched a number of new consumer events during the year, including the Design District for London Design Festival and Show in the Dark, a winter night of culture and entertainment delivered in partnership with our customers across Regent Street and St James's. We also built on the success of our long-standing events such as Summer Streets, which attracted more than 1.2 million people this year.

Partnerships

We are committed to making central London the best place for people to work, live, shop and spend time. This year, we have worked to help to address key issues affecting the city, including waste and homelessness, and deliver positive outcomes for our local communities.

This has included the Food Waste Pledge, a first-of-its-kind initiative which brings together like-minded restaurants across Regent Street and St James's to take action on food waste, setting an ambition to reduce wastage by 25% by 2020.

We also launched and funded a new waste management scheme for Heddon Street. Using electric vehicles, we are collecting commercial waste throughout the day at times which are tailored to the individual needs of our customers.

We joined the Mayor of London's #OneLess campaign, which aims to reduce single-use plastics with the installation of water fountains across the city. We also joined the TAP initiative, installing contactless payment donation points across our portfolio to support homeless people across the capital.

55 Regent Street, London
Visitors to The Curiosity Rooms from Google enjoy free talks, entertainment and activities as part of its five-week pop-up to launch the Pixel 3 phone.

One Heddon Street: Our first flexible office and co-working space

One Heddon Street, London

Bringing together co-working, private offices, meeting rooms and in-house café Ziggy Green, our new One Heddon Street workspace also offers members a wellbeing and events programme. We welcomed the digital marketing platform, Fast Thinking (pictured), as our first customer. The space is now home to a range of small businesses, bringing a new community of entrepreneurs and SMEs to the area. This is the first in a series of flexible spaces that we plan to deliver as we continue to diversify our customer offer.

Read more about One Heddon Street online:
thecrownestate.co.uk/annual-report/one-heddon-st

Performance
Our markets and portfolio review continued

Regional

Our Regional portfolio is focused on prime retail and leisure destinations across the UK.

The retail industry has had a challenging year, with occupational markets coming under significant pressure and sentiment within the investment market weakening. We have seen yields shift out across both our retail parks and shopping centres, resulting in negative capital growth of -7% across the portfolio over the year.

Despite these challenges, and the continuing transformative impact of technology, we remain confident in the future of prime destinations and believe the physical store continues to have an important role in the multichannel world.

However, to ensure our destinations remain relevant and resilient in a fast-changing market, and keep pace with people's changing expectations and priorities, they must also offer an increasingly diverse mix of uses and experiences. This is likely to see us reduce our overall exposure to traditional retailing in the coming years.

Over the year we have continued to develop our long-term vision for the portfolio, investing in our places to ensure they provide the most compelling offer and are tailored to the needs of their local catchment.

This active approach, and strength of our destinations, ensured our Regional portfolio delivered another year of resilient performance in the context of the wider market. We secured 290,000 sq ft of new lettings, to 30 customers, generating a rental income of £6.6 million in line with March 2018 ERV.

3%
void rate across the Regional portfolio at March 2019

£6.6m
value of new lettings, across 290,000 sq ft and in line with March 2018 ERV

Rushden Lakes

It was another busy year for Rushden Lakes, our £218 million retail and leisure destination which opened in July 2017. We completed three further phases of development, bringing the total size of the destination to 450,000 sq ft. This helps realise our ambition for Rushden Lakes to be a truly mixed-use destination, bringing together retail, dining, leisure and entertainment in an exceptional natural lakeside setting.

In April 2019, we also exchanged agreements to acquire 54 acres of land to the west of the site. This acquisition will enable us to bring forward future phases of development and deliver a new access route to the centre.

Fosse Park

Fosse Park is one of the UK's most popular shopping parks, welcoming 11 million visitors over the last 12 months. During the year, we started work on a £168 million development, due to complete in 2020 and delivering 163,000 sq ft of new space.

With the creation of 13 new retail spaces, 16 new casual dining and café outlets and the redevelopment of the food court, Fosse Park will offer a much broader mix of experiences and greater flexibility for its visitors. Our space under development is already more than 50% pre-let to a range of brands including Next, TK Maxx and Clarks, while the existing destination is fully let, having welcomed new brand Foot Asylum during the year.

We also confirmed a £5 million placemaking and public realm investment in the existing centre, delivering new communal areas and event spaces, complemented by improved landscaping, widened walkways and enhanced accessibility.

East Hemel

We have progressed our plans for East Hemel, where we aim to deliver 1.5 million sq ft of new flexible commercial space, which has the potential to generate up to 8,000 jobs. Our plans also include 2,500 new homes, of which 40% will be affordable, to be delivered by specialist residential partners.

The scheme had a major boost in March 2019, with the confirmation that the Hemel Garden Communities proposal had been selected by Government as one of five new garden towns for England. Government funding will help to fast-track the planning and delivery of the proposal, with our plans for East Hemel being the first phase in this strategic expansion for the town. This will help Hemel Hempstead deliver on its long-term housing and employment needs.

Customers

In the context of the structural changes impacting the retail sector, and changes to the way people work and spend their time, we have been working more closely with our customers this year to proactively manage risk. This has seen us take back space from some retailers which were experiencing difficulties, creating opportunities to reconfigure space at our destinations or re-let to different occupiers.

Of the seven retailers and dining operators within our Regional portfolio which were subject to a CVA during the last financial year, only three units, out of a potential 30, have been subject to store closure. This has helped to ensure that our occupancy rate across the portfolio remains above 97%.

At Portsmouth's Ocean Retail Park, for example, we took back 68,000 sq ft of space through the management of the exit of Homebase and Toys R Us. Over the year this enabled us to secure new lettings to Smyths Toys, B&M and Lidl.

We also launched the engagement platform 'Savills Insights' across our retail and leisure portfolio, becoming the first UK business to do so in the retail park environment. The app enables us to engage directly with our customers' head office and on-site teams, sharing the latest news on our centres, including security updates, marketing activities and events.

Westgate Oxford, our joint venture with Landsec, won the Revo Gold Award in the Re:new category for its design, delivery and performance, setting a new standard for the industry. The centre is now 97% let, with Zara signing up for a new flagship, alongside lettings to Flannels, Mango and Urban Outfitters.

Partnerships

Building on our work with the disability charity Purple, see page 31, we partnered with Revo on the Accessible Places Toolkit to ensure our destinations are accessible to all. The toolkit aims to remove barriers for the 21% of the UK population who has a disability, and drive greater equality and accessibility in retail.

We also extended our strategic relationship with The Wildlife Trusts, with new initiatives including 'Gatekeepers' at The Gate in Newcastle, a youth engagement programme educating the city's young people on the importance of biodiversity.

Rushden Lakes: A destination for the local community to explore

Rushden Lakes, Northamptonshire

We completed 210,000 sq ft of new space at Rushden Lakes this year and realised our ambition for this to be a truly mixed-use destination. Our broadened offer is bringing together diverse leisure experiences, including indoor climbing with Rock Up (pictured), adventure golf by Paradise Island and Cineworld's new IMAX, Screen X and 4DX special effects. In total Rushden Lakes welcomed over 20 new brands this year, including Barbour, Beaverbrooks and Skechers, alongside independent retailers such as Out of Office Coffee House and AJ Cycles. Read more about Rushden Lakes online: thecrownestate.co.uk/annual-report/rushden-lakes

Performance
Our markets and portfolio review continued

Energy, Minerals & Infrastructure

It has been another busy year on the seabed, with further developments for minerals and offshore wind, and continued growth in infrastructure.

We have strengthened engagement with stakeholders, government and customers, as we seek to unlock value from the seabed around England, Wales and Northern Ireland.

Offshore wind

Operational capacity in the offshore wind sector increased by 0.2GW$^{\Delta}$ over 2018/19, reaching a total of 7.7GW. This cumulative amount is equivalent to supplying the electricity needs of 6.6 million homes.

We also saw the opening of the world's largest operational offshore wind farm, Ørsted and partners' 659MW Walney Extension in the Irish Sea, and the opening of E.ON and partners' 400MW Rampion offshore wind farm, the first wind farm located off the UK's south coast.

This year, we carried out extensive engagement with stakeholders and the market to develop and refine our plans for Leasing Round 4 – the first offshore wind leasing round in a decade, which has the potential to deliver 7GW of new offshore wind capacity.

Following the announcement in November 2017 that we intended to make new areas of seabed available for offshore wind, we have been working to create a tender process which supports a mature and thriving market.

Our extensive analysis of seabed constraints, technical resource and data has been shared with industry to help developers select the best sites for their new projects. Further information on Leasing Round 4 can be found here: thecrownestate.co.uk/leasing-round-4

In 2017, we also invited developers to bring forward extensions to existing offshore wind farms and this year we confirmed eight project applications with the potential to deliver up to 3.4GW of new capacity.

During 2018/19, an additional 4.5GW from Leasing Round 3 have progressed into the planning process, including Ørsted's 2.4GW Hornsea Three offshore wind farm and Vattenfall's 1.8GW Norfolk Vanguard and 300MW Thanet Extension.

To support the continued growth of offshore wind, and in line with our commitment to the sustainable, long-term management of the seabed, we have committed to fund a programme of strategic enabling actions. This activity will advance the evidence base and enhance understanding of the key challenges facing the offshore wind sector. We will work with the Government and the devolved administrations of Wales and Northern Ireland, industry and a range of stakeholders, to ensure that we support the responsible, co-ordinated expansion of offshore wind and unlock the sector's extraordinary potential.

Our partnership with industry has continued through the Offshore Renewables Joint Industry Programme and SPARTA, the world's first benchmarking platform monitoring the operational performance of offshore wind farms.

We also funded several data pilots with offshore wind operators to capture and better understand common data and digitisation challenges. An example of this was using SPARTA and SCADA datasets, machine learning and more traditional analysis tools, to provide insights into issues such as blade leading-edge erosion.

Impact

Greenhouse gas (GHG) emissions avoided (enabled)

25.3TWh

Enabled terrawatt hours of offshore renewable energy generated over 2018/19 (2017/18: 23TWh)

Impact of GHG emissions avoided

£172m*

Related to the positive impacts and associated social benefits resulting from reduced concentrations of atmospheric greenhouse gases (2017/18: £193m)

*Economic impact is less than in the previous year despite increased TWh – reflecting increased decarbonisation of the grid

See thecrownestate.co.uk/total-contribution

Minerals

Following the strongest level of interest for over a decade, we accepted nine bids from the 2018/19 Marine Aggregates Tender, which are now progressing to Habitats Regulation Assessment stage. We also implemented an electronic monitoring system across the entire UK dredging fleet, giving our customers access to enhanced data capture and supporting responsible dredging.

Infrastructure

We continued to collaborate with the cables industry, ensuring it can grow and prosper on an increasingly busy seabed. The 1000MW Nemo Link electricity interconnector, connecting the UK and Belgium, commenced its commercial operation this year, supporting the resilience of the UK's electricity supply. The 1400MW North Sea Link with Norway and the IFA2 interconnector with France both started construction.

Marine aggregates, Southampton
Our customer, Tarmac, processes marine aggregates at its Southampton plant.

Blyth wind farm: A centre for innovation on the seabed

Blyth, Northumberland

Blyth in Northumberland made history back in 2000, when it became home to the UK's first offshore wind farm. Some 19 years later, Blyth has become synonymous with offshore wind innovation. Today, the EDF Renewables' Blyth offshore demonstrator wind farm (pictured) sits alongside the construction of the 720km North Sea Link interconnector. We've been working with EDF Renewables and Statnett/National Grid North Sea Link Limited to manage this busy area of seabed and secure the long-term future of Blyth as a centre of excellence for offshore wind. Read more about Blyth online: thecrownestate.co.uk/annual-report/blyth

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Windsor Great Park
Our Forestry team, led by Chief Forester John Deakin (right), together with Edwin Mulready (left) and Luke Forest (centre).

Rural & Coastal

In the context of our evolving markets, we have continued to consider the changing needs of our business, and the alignment and management of our portfolios.

In response to this, from 1 April 2019 our Rural and strategic land teams became part of our Regional portfolio. This allows our land-based regional assets to be managed by one overarching team.

As part of this our Coastal team joined the Energy, Minerals & Infrastructure portfolio. This team is working together to manage the seabed and coastline around England, Wales and Northern Ireland.

Rural

Our programme of sales from the Rural portfolio continued to bring to market assets with limited opportunities for asset management or rental growth, enabling us to release capital back into the business for future investment. This year we sold £87.3 million of rural assets, excluding strategic land transactions.

This included further sales from our Taunton Estate, where we have completed £60.7 million of sales to existing farm tenants and third party buyers. We have also made good progress towards the sale of the historic Laxton Estate, which is the last open-field farming estate in operation in England.

We have again focused on asset management initiatives this year, as well as strengthening our customer relationships across our rural assets.

Based on feedback, we implemented more regular, in-depth communication with our customers. We revised our newsletter to cover issues our tenants told us were important to their businesses, such as health and safety, sustainability and our Project Soil initiative. This is now in its fourth year and aims to embed resilience into our assets by focusing on improving soil health.

Strategic land

We remained active in the strategic land market this year, with around £70 million of total receipts from disposals reflecting a notably active transactional period following a series of recent planning consents across the country.

This included Knutsford, where we sold the land north of Northwich Road with approval for 190 homes to Redrow for £32.9 million. We also launched the second phase of our masterplan for North West Knutsford, which aims to deliver a 7.5 hectare business park, with the potential to create up to 1,000 jobs and 60 new homes.

Coastal

Our Coastal portfolio had another busy year, with leases and licences of tidal land and seabed completed for a diverse range of activities including port and harbour infrastructure, cables and pipelines. Two new long leases with Dover Harbour Board will facilitate a major development of the western docks at Dover with the creation of a leisure-based waterfront, a new cargo terminal and distribution centre.

The Windsor Estate

The Windsor Estate welcomed six million visitors and enjoyed its fourth consecutive year of profitable operations, generating a net profit of £2.6 million.

This follows our recent investments to develop our visitor offer, including the refurbishment of the Savill Building and enhancements to the Savill Garden.

We have also undertaken a refurbishment and modernisation programme across the Estate's residential portfolio of over 700 properties. This has enabled us to bring 45 properties onto the private rental market and increased our range of customers across the Estate.

Our team is focused on preserving Windsor Estate's diverse natural environment for the enjoyment of future generations. This long-term approach to sustainable management was recognised by Natural England with the confirmation that 100% of our SSSIs, spanning 2,405 hectares, are now in a 'favourable' condition, the highest rating achievable.

We continue to engage the next generation of park users in the management and stewardship of the Windsor Estate, hosting 1,400 children at our bi-annual schools open day. We also welcomed 2,500 young people to our environmental education centre, operated in partnership with the Berkshire, Buckinghamshire and Oxfordshire Wildlife Trust.

Windsor Great Park was proud to provide the backdrop to two royal weddings in 2018, with the Estate and Savill Garden contributing flowers and foliage for both occasions. The year-round hard work of our gardens team was also recognised with four award wins at this year's Royal Horticultural Society Early Flowering Plant competition.

In the year ahead, we will begin the refurbishment of the Virginia Water Pavilion and the construction of a new premium children's play area adjacent to the Savill Garden.

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Windsor Estate: Working to protect this unique landscape

The Windsor Estate

The scale and continuity of the Windsor Estate creates a complex ecosystem which supports an outstanding wealth of biodiversity. Our conservation teams work hard to maintain these varied habitats and create new areas for native species to thrive. Our team also collaborates with the local community to share their knowledge about managing this important environmental asset. The ecosystem of the Windsor Estate provides services to our customers and surrounding areas to a value of £21 million a year. This value relates to visitor recreation and welfare, flood risk mitigation, greenhouse gas avoidance and improved water quality. Read more about the Windsor Estate and the value of its ecosystem services online: thecrownestate.co.uk/annual-report/windsor-great-park

Operations review

89%
Employee engagement
89% of our people said we are a 'brilliant place to work'

80.6%
Customer satisfaction
80.6% of our customers are either satisfied or highly satisfied this year

We've increased investment in our people and our business. This has equipped us with the diverse talent, resilience and greater agility we need to realise our future ambitions and deliver ongoing success.

We continue to focus on nurturing a high-performance culture and building our reputation as a great place to work. Our annual staff survey, One Voice, showed a third year of sustained improvement in staff satisfaction and engagement.

We are particularly proud that 89% of employees said we are a 'brilliant place to work', another percentage point increase on last year.

With a skilled, diverse and engaged team, united around a shared purpose, our people remain our greatest asset. This year we have brought in new skills and knowledge, often from outside of our core sectors, which has inspired and challenged our thinking and ways of working. We have also integrated resources and built new central functions of expertise, which will be increasingly essential to our competitiveness and success.

Our purpose, brilliant places through conscious commercialism, reflects our commitment to doing business the right way and delivering positive impacts for customers, communities, partners and the environment. We have continued to work towards our ambitious Aspirations 2030 – climate-proof business, healthy places and habitats and super-efficiency – which help us to maintain our resilience and future-proof business. We have also considered our role as a leader in responsible and sustainable business practices, and challenged ourselves to further develop our approach in this space.

Understanding our broader impact remains important to us. In this Operations review we focus on four of our capitals: our people, our know-how, our networks and our natural resources. Further reporting on our performance against capitals is available online at: thecrownestate.co.uk/performance-against-capitals

Judith Everett
Chief Operations Officer

Our people and know-how

Our talented and committed team are central to our success. This year, we developed our dedicated People Strategy to ensure we have a compelling proposition for our people and the right approach to attracting, retaining and investing in talent. This will be a key component of delivering our Corporate Strategy.

Recruitment and skills

With an 11% growth in our team this year, new joiners have helped to build our capabilities in digital and technology, customer experience, programme management, strategic marketing, place and public realm, creating strong functional teams with expertise to be deployed in line with strategic priorities. Approximately a third of our total recruitment activity has involved internal candidates moving into new roles.

We also brought together core capabilities from across the business, including the creation of a new Strategy and Business Development team. This central team will drive forward the integrated corporate strategy. This will help to ensure we tap into innovation and transform our business to a more customer-centric organisation, driven by insight-led decision-making.

Wellbeing

We recognise the vital importance of health and wellbeing in supporting the productivity of our people and talent retention. Our approach is consistent across the business, at both our St James's Market head office and Windsor Estate.

This year, we have expanded our wellbeing programme. We have increased the number of mental health first aiders, providing one trained first aider for every ten employees. We have also relaunched our Employee Assistance programme with a new provider, giving our people access to independent and confidential advice 24 hours a day.

Alongside this, our annual Wellbeing Week gave employees access to physical health checks and expert-led sessions on subjects from improving sleep and mental wellbeing, to nutrition and cycle safety.

We have a low sickness absence rate for the business of 2.31%, compared to a national average of 2.5%.

This year, our head office at St James's Market became the first office in Europe to achieve WELL Platinum certification, one of only 11 projects worldwide to achieve this highest standard. The International WELL Building Institute has established the global standard to enhance people's health and wellness through the built environment. Our focus on wellbeing also extends to our customers and the role our places play in delivering positive outcomes for the people who use them. Read more about how we are applying the knowledge gained from the fit-out of St James's Market to benefit our customers on page 20.

We grew the wellbeing offer for our customers in central London, with free access to a variety of health and wellness activities. Over the course of 12 months we have provided zumba, pilates, yoga and self-defence classes, as well as a running club, with more than 4,300 customer sign-ups to our activity programme.

We have also been promoting excellence in health and safety within our supply chain, with a particular focus on mental health awareness training and support, occupational health and wellbeing, and fire safety.

Impact

Employee engagement

89%

of employees think that The Crown Estate is a 'brilliant place to work' (2017/18: 88%)

Impact of employee engagement

£130,210

Related to the positive impacts and associated social benefits resulting from engaged employees in terms of their workplace productivity and the reduced number of sickness absence days (2017/18: £121,000, restated from £111,000 reported last year)

See thecrownestate.co.uk/total-contribution

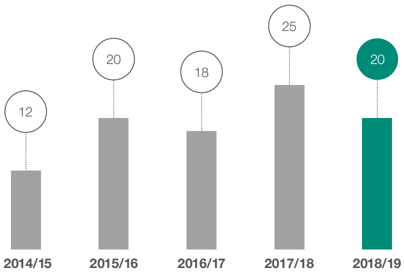
St James's Market, London
Our living wall at St James's Market gives visitors a moment for quiet reflection as part of our annual wellbeing week.

Performance
Operations review continued

Average hours of training per year per employee

20 hours

-20% reduction on 2017/18



Learning and development

We are committed to being a learning organisation and to creating an environment where our people do a great job and are supported to realise their career ambitions. This year, we have focused on training activities tailored to the needs of individuals, ensuring that our people can access the learning and development which is right for them. While this has led to the average number of training hours per employee decreasing this year to 20 hours, 90% of our people have accessed higher quality, more personalised learning and development.

We have also continued our investment in the future generation of leaders with our Connected Leaders and Management Development programmes. You can read more about our Connected Leaders programme online at: thecrownestate.co.uk/annual-report/our-people

Our biggest training investment of the year was our Customer Centric Excellence programme for 120 of our in-house and central London managing agent colleagues. This focused on building stronger relationships with our customers, and putting them at the centre of our decision-making.

At the Windsor Estate, where we employ five apprentices, we welcomed a new apprentice forester and carpenter to the team, and were pleased that two former students from the Professional Gardeners' Guild training programme have joined us on a permanent basis.

Reward and benefits

As our greatest asset, it is important we continue to reward and recognise the contribution our people make to our overall success. Our competitive reward packages are aligned to performance and benchmarked against comparable organisations in our sector.

Alongside financial reward and benefits we also offer all our employees two volunteering days. This year 180 staff volunteered 1,915 hours of their time to initiatives including the Windsor 'Great Estate Tidy' and a beach clean on the north Kent coast.

Building on our own support for initiatives such as The Connection, a centre helping London's homeless, and 'The Summer Beach Clean' at Gabriel's Wharf, we also provided our customers with volunteering opportunities. This has resulted in almost 350 hours dedicated by our customers in support of good causes.

We have been an accredited Living Wage employer by the Living Wage Foundation since April 2015.

Diversity and inclusion

We are proud of our inclusive culture and work hard to recruit colleagues with diverse skillsets and backgrounds. Our One Voice results show that our people agree, with 87% saying we promote a diverse and inclusive workplace, a score that is significantly above the UK norm.

We are committed to delivering on our diversity and inclusion (D&I) commitments and monitor them regularly. We continue to explore how we can improve in this area. Our policies promote equality and fairness for all, and do not discriminate against any of the nine protected characteristics.

Our senior leaders include three women on our four-person Executive Committee, and four female Board Members. This year, we reported our gender pay gap data for the second time. Our median base pay gap across the business for 2018 sits at -25.6%, with the mean at -5.6%, a gender pay gap in favour of women.

St James's Market, London
The team at our St James's Market HQ, the first office in Europe to achieve WELL Platinum status.

Savill Garden, Windsor
Visitors to Windsor's Savill Garden can enjoy beautiful natural landscapes and local wildlife.

These figures have shifted slightly compared with 2017. The median gap has closed from -31% to -25.6%, and the mean gap has widened slightly from -3% to -5.6%. This reflects the fact that since we last reported we've seen a small number of male leavers at the higher end of the pay scale.

Full details of our gender pay gap can be found on online at: thecrownestate.co.uk/gender-pay-gap

While these figures put us well ahead of our industry, and indeed most companies which report on the gender pay gap, we recognise there is still much more to do in promoting diversity in the broadest sense.

We have a number of initiatives and partnerships in place to support our commitment in this area:

- a structured recruitment process
- active monitoring of our talent pipeline, ensuring all employees have equal access to development and equal opportunity for progression
- a range of family-friendly policies
- partnerships with Stonewall, on greater LGBT representation, and the Business Disability Forum
- participation in Real Estate Balance's 'CEO Commitments for Diversity'.

We are also proud to have strengthened our relationship with the disability and accessibility organisation, Purple. Our Regional and Central London portfolios supported Purple Tuesday, the UK's first accessible shopping day on 13 November 2018. We also partnered with Purple to audit the accessibility of our corporate and consumer websites, ensuring that they meet the needs of people with disabilities.

During the year we again hosted mentoring and networking events for initiatives to inspire the next generation, including Reading Real Estate Foundation's Pathways to Property. We also partnered with Kent Wildlife Trust on the Coastal Explorer Internship Programme, a collaboration which brings us together with our offshore wind customer Vattenfall and Canterbury City Council to introduce young people to careers in the offshore renewables industry.

Health and safety

It is essential that we deliver an environment and culture where our people can thrive, and our customers feel supported, safe and secure. Our One Voice survey showed improvement for a second year, with 93% of our people feeling we do a good job of ensuring their health and safety wherever we operate.

On our developments we promote the Considerate Constructors Scheme. Our Morley House development achieved Ultra Site status this year, meaning we are delivering best practice, exceptional leadership and innovation in construction.

We measure our health and safety performance using an Incident Severity Score. This measure includes our direct management of Windsor Estate and also our indirectly managed property portfolio, helping us to know where to focus attention. We have been targeting better reporting through an online system and have increased the scope of what is captured. We have achieved a 9%$^{\Delta}$ improvement in the score, although we slightly underperformed against a target of 10%.

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T2, Regent Street
Our customer, T2, showcases their products to visitors as part of our Show in the Dark event programme.

Our Accident Frequency Rate (AFR) is 0.24$^{\Delta}$ and our Accident Severity Rate (ASR) is 0.06$^{\Delta}$.

We have had two reportable incidents (RIDDOR) to the Health and Safety Executive (HSE) on directly managed assets, and one incident reportable to HSE within those parts of the portfolio managed by third parties.

Workplace injuries include all injuries sustained by employees that occur while at work and undertaking a work activity. These include both minor and more serious injuries, including those reportable to the HSE. We continue to promote reporting of all incidents and had 39 workplace injuries during the year. All of these were minor and no serious employee injuries were sustained.

On our construction projects we review our contractor accident statistics and our Development AFR, of 0$^{\Delta}$, has been assured for the first time.

Employee turnover

This is our second year of reporting voluntary turnover figures. We believe this metric is more meaningful than total turnover as it relates to employees choosing to leave the business. We are pleased to report this figure remains low at 6%, against a UK average of 19%.

Impact

Workplace injuries

39

All direct minor (39) and major (0) workplace injuries (2017/18: 52 minor injuries)

Impact of workplace injuries

-£26,268*

Related to the negative impacts and associated social costs resulting from workplace injuries, such as the reduction in an individual's health, treatment costs and reduced workplace productivity (2017/18: -£21,000)

*Despite fewer injuries, the economic impact is greater than the previous year due to a greater number of associated days of absence

See thecrownestate.co.uk/total-contribution

Our networks

Our success relies on our relationships with our networks, from our customers and communities to our managing agents and supply chain. Strong partner relationships are vital in ensuring that we continue to be a responsible and resilient business, and are crucial to our ambition to create brilliant places.

We have large and diverse stakeholder groups. A full list of these groups and details of how we engage, listen and collaborate with them can be found on page 59.

Customers

Customers are at the heart of the long-term strategy for our business. We are focused on building closer relationships with them, gaining a deeper understanding of their business goals and objectives. In March, we were delighted that our ongoing commitment to our customers was recognised with the Best Customer Experience award from the Institute of Customer Service UK.

This year, we brought in new talent to bolster our customer service capabilities, with a central team working across the business to embed a truly customer-centric mindset.

We increased our understanding of our office customers' experience, with enhanced customer journey mapping. The insights have enabled us to focus on key areas which will deliver meaningful change. For example, we have introduced move-in ambassadors to support customers as they set up their new offices.

Impact

Employment placements

154

unemployed people placed into employment through our Recruit Regional programme (2017/18: 170)

Impact of employment placements

£5.5m

Related to the positive impacts and associated social benefits of placing an unemployed individual into employment in terms of their income received and reduced support from the state (2017/18: £6m)

See thecrownestate.co.uk/total-contribution

We are also facilitating engagement between our community of customers, creating opportunities for them to work together, and with us. This year, with our office and retail customers, we curated free networking events and seminars on subjects including waste reduction and sustainability.

We are pleased to report an improved customer satisfaction rating across the business, up from 78% last year to 80.6%, reflecting the proportion of our customers who are either satisfied or highly satisfied. Our Rural team delivered the highest level of customer satisfaction at 88%.

We also measure our Net Promoter Score (NPS), which tracks the loyalty that exists between provider and customer. Our overall score is now 39, increasing from 31.5 last year. This again places us far ahead of the Institute of Customer Service UK benchmark, with an average NPS of 22.4. Again, our rural team made the most significant improvement this year, with a score of 51.3, as a result of its proactive approach to strengthening customer relationships.

Communities

Our diverse portfolio of assets means we have an incredibly broad range of local stakeholders and communities. This year, we brought all our community activities under a central team, to work across the business maximising our impact and value to the people and places in which we operate.

Last year we invested over £400,000 (including £90,000 in management time) in community and stewardship initiatives. This included our continued funding of ReStart, a three-year employment and training programme delivered with Cross River Partnership, to support those at risk of homelessness back into work. This Westminster-focused initiative has helped 68 people into jobs and supported many more to enter the workplace. The ReStart initiative came to an end on 31 March 2019. We are now working with Westminster City Council to build on its success and continue connecting our customers with their communities through local recruitment and training.

Our Recruit Regional initiative continued in partnership with the Department for Work and Pensions. It has supported new customers at Fosse Park and Rushden Lakes ahead of their store openings, connecting them with local jobseekers who are provided with interview practice and CV workshops.

Stakeholder engagement

This year we engaged with elected representatives from over 100 different constituencies, reflecting the breadth of our portfolio and the range of sectors in which we operate. For example, we engaged with MPs in Parliament and with Assembly Members at the National Assembly for Wales on offshore wind leasing. Elected representatives were able to ask questions about our activities, and understand how we had considered shipping, fisheries and other seabed users in our plans.

Responsible business

We have continued to consider the impact we have on the environment, communities, customers, employees and suppliers. This has seen us establish a Responsible Business working group to begin to draw together the breadth of our activities in this space. To support us we have broadened our external engagement with leading academics, peers, customers and political thinkers. This will help us establish greater clarity of purpose and ambition in the year ahead.

We continually review and monitor the effectiveness of our policies, processes and governance. We carry out regular training and stress testing of our processes and this is supported by our business continuity plans, crisis management and operational procedures at an asset level.

We work closely with our managing agents and other parts of our supply chain to ensure our processes are aligned. This year, we have strengthened our engagement with external partners on security-related issues, including the New West End Company, Heart of London, the Metropolitan Police, and other landowners, through the West End Security Group.

Our Aspirations 2030

We are working towards our ambitious sustainability Aspirations 2030, which will help future-proof our business:

Climate-proof business
To be climate resilient by 2030, with portfolio decarbonisation and effective climate change adaptation in place.

Healthy places and habitats
By 2030, to be creating healthy places where our customers, employees, communities and natural habitats can thrive.

Super-efficiency
By 2030, we will have closed the waste loop using circular economy principles.

Impact

Greenhouse gas (GHG) emissions

18,416 tCO_2e

tonnes of CO_2e emitted (Scopes 1 and 2)
(2017/18: 20,205 tCO_2e)

Impact of GHG emissions

-£444,367

Related to the negative impacts and associated social costs resulting from increased concentrations of atmospheric GHGs
(2017/18: -£482,000)

See thecrownestate.co.uk/total-contribution

Natural resources

The responsible long-term management of natural resources is integral to our business resilience. We monitor ourselves, in part, through what we are doing to meet our Aspirations 2030: climate-proof business, healthy places and habitats, and super-efficiency (see left). Within these, we are working towards a number of targets which are aligned to the United Nations' Sustainable Development Goals (SDGs). More detail can be found online at: thecrownestate.co.uk/performance-against-capitals

In April 2019, we relaunched our Development Sustainability Principles (DSPs) to reflect changing and emerging sustainability considerations. Our principles establish new ambitions around the durability of our assets, operational efficiency, delivery of positive community impacts and enhanced customer experience.

This third version of our DSPs will challenge us and our supply chain to deliver ever-stronger sustainability outcomes throughout the design, construction and decision-making process of all our real estate developments.

More information on our DSPs can be found online at: thecrownestate.co.uk/development-sustainability-principles

This year, we became one of seven pioneers of the Design for Performance project, an industry initiative aiming to change the design of new office developments to enhance energy efficiency.

We also enjoyed another year of progress tracking against the Global Real Estate Sustainability Benchmark (GRESB), maintaining our 'Green Star' ratings across all our portfolios, with improvements across all scores. Our Regional portfolio performed the strongest, achieving a score of 84/100, up from 77/100 last year, and was awarded the full five-star rating from GRESB.

Healthy places and habitats

Across our portfolio we aim to create destinations which our customers, people and communities can enjoy, and places where they can benefit from the relationship between nature and the built environment.

As part of our biodiversity masterplan for the West End, we have continued our support for Wild West End. This brings together neighbouring landowners in central London to create new green spaces within the West End to support biodiversity, improve air quality and enhance urban cooling. To date we have created a total of 36,000 sq ft of additional green space and remain on track to achieve our target of at least 54,000 sq ft by 2022. As part of Wild West End, our allotment gardens on Regent Street have flourished, now tended by 48 gardeners from our retail and office customers.

Finally, at Windsor, we were delighted this year to receive the confirmation from Natural England that 100% of our SSSIs are now in a 'favourable' condition, the highest rating achievable.

Super-efficiency

We are a member of the Ellen MacArthur Foundation and look to apply circular economy principles, implementing restorative and regenerative activities across our business and supply chain. This year we became the programme partner of the UK Green Building Council's dedicated circular economy workstream to consider how we can lead and drive the industry in the circular economy.

Of our operational waste, 100% was diverted from landfill and 54% was recycled against a target of 85% by 2022/23. Of our construction waste, 89% was diverted from landfill.

Climate-proof business

We have been working to identify our climate change risks and opportunities, both to assess the impact on the future resilience of our business and in order to start disclosing on this, as recommended by the Taskforce on Climate Financial Disclosure (TCFD). See page 40 for more information.

Our energy consumption and carbon emission data is reported opposite and we are working to develop tighter targets in line with the Science-Based Targets initiative (SBTi). Our aim is to reduce our absolute energy consumption, and we are reviewing our energy trajectory to ensure that we achieve significant reductions over the coming years. More details of energy-saving measures taken over the past year can be found online at: thecrownestate.co.uk/performance-against-capitals

Energy consumption – absolute (MWh)

Source	2017/18	2018/19	Year-on-year % change	Like-for-like year-on-year % change
Electricity	65,814	**69,481**	6%	1%
Fuel	28,834	**34,588**	20%	-10%
Total	94,648	**104,069**	10%	-2%
Number of assets	127	**158**	24%	127
Energy intensity (indexed kWh/m²) – baseline 2012/13 (100 indexed points)	**96**	**93**	**3%**	

The like-for-like metric gives the clearest idea of year-on-year energy performance as it includes the same assets in both reporting years. When comparing 2018/19 against the previous year, like-for-like energy use has reduced by 2%.

Carbon emissions

Our carbon emissions are reported in accordance with the GHG Protocol (see below). Data reported is calculated by applying the DEFRA standard emissions factor used for all of the UK, known as the Location-based methodology. The DEFRA emissions factor has been decreasing rapidly since 2014 with an increasing amount of renewable energy entering the mix of energy in the National Grid.

Location-based carbon emissions: Scope 1, Scope 2 and Scope 3 (tCO_2e)

Emission scopes		2016/17	2017/18	2018/19
Scope 1	Direct emissions from fleet and heating of buildings	5,906	5,663	**6,678$^{\Delta}$**
Scope 2	Emissions from generated electricity usage	12,621	14,542	**11,738$^{\Delta}$**
	Gross Scope 1 and 2 emissions	**18,527**	**20,205**	**18,416**
Scope 3	Emissions: business travel	208	188	**178**
	Emissions: evidenced tenant-purchased energy	13,109	8,722	**8,048**
	Emissions: transportation and distribution losses (modelled)	1,142	2,163	**1,677**
	Total Scope 3	**14,459**	**11,073**	**9,903$^{\Delta}$**
	Gross Scope 1, 2 and 3	**32,986**	**31,278**	**28,319$^{\Delta}$**
Emissions intensity (indexed kg CO_2e) – baseline 2012/13 (100 indexed points)		**87**	**78**	**66$^{\Delta}$**

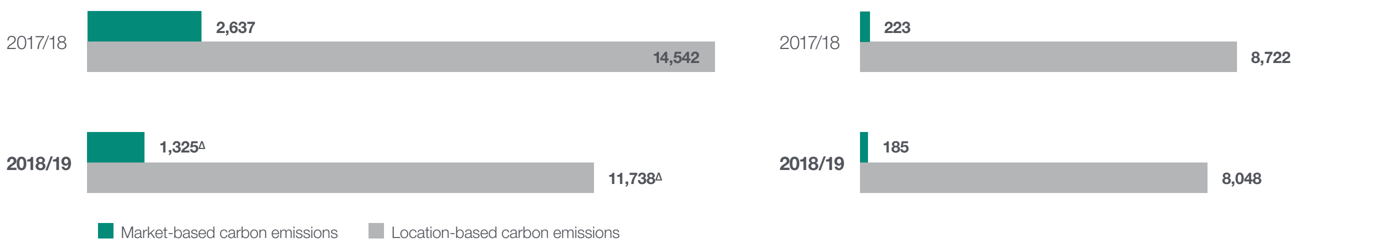
Data note: Above data reflects emissions from our direct-managed portfolio (within Central London, Regional and office and workshops at Windsor). It represents circa 38% of the total floor area of buildings within these portfolios.

We have achieved a 34% reduction in carbon emissions intensity since 2012/13 (66$^{\Delta}$ indexed points), making good progress towards our target of a 40% reduction by 2022/23. Over 2018/19 we saw a 15.4%$^{\Delta}$ improvement from the previous year. This was due to a combination of changes in the DEFRA emissions factor and our own energy efficiency measures.

A more accurate picture of emissions takes into account the amount of renewable energy we are purchasing, calculated under the Market-based methodology. KPMG assurance confirms that 81%$^{\Delta}$ of our electricity is procured from renewable sources. This significantly reduces our emissions under Scopes 2 and 3 (see bar chart below). Our target is to procure 100% of our electricity from green sources by 2022/23. We are members of RE100.

Emissions using the Market-based methodology (tCO_2) compared to the Location-based methodology (tCO_2e)[1]

Scope 2 | **Scope 3 (tenant purchased energy only)**



1 Market-based emissions are reported in tCO_2 rather than tCO_2e due to the availability of emission factors.

For a more detailed breakdown of our emissions and all other information on this page, please see thecrownestate.co.uk/performance-against-capitals

Financial review

£205.6m
Net revaluation surplus
(2017/18: £921.0m)

£14.3bn
Net assets
(2017/18: £14.1bn)

In this section I reflect on the impact of our strategy, markets and portfolio, described in previous sections of the Performance review, on our financial performance and position.

We have delivered a ninth consecutive year of income growth, returning net revenue profit of £343.5 million to the Treasury, a 4.3% increase on last year.

This growth has been driven by strategic acquisitions in the Central London portfolio and development activity within our Regional portfolio, including the first full year of trading at Westgate Shopping Centre, Oxford and Rushden Lakes. With the increase in capacity from offshore windfarms coming on stream, we have seen growth in the contribution from our EMI portfolio this year.

While challenging occupational markets, most notably within retail and casual dining sectors, have affected our results, our focus is on brilliant places in prime locations which continue to outperform.

Overall we delivered a net revaluation surplus of £205.6 million, bringing the value of our properties to £13.5 billion (2017/18: £13.3 billion) and our net assets to £14.3 billion (2017/18: £14.1 billion). This was driven by increased maturity in the offshore wind sector and benefits of investment in Central London partly offset by declines in the Regional portfolio.

It is noteworthy that our unique capital structure, with no debt, makes us resilient and, with our robust cash position, allows us to invest for the long term through market cycles.

In shaping our strategy, consideration of our material issues and emerging risks and opportunities are integral to our effectiveness and resilience. This year, building on the work undertaken by the Board, our management team has worked to embed this approach with a combined risk and strategy planning process. You can read more about this on page 42.

Kate Bowyer
Chief Financial Officer

GVA

Gross Value Added (GVA)

£409.4m

(2017/18: £394.2m)
Conventional measure of an organisation's economic contribution (profits, taxes and wages paid)

See thecrownestate.co.uk/total-contribution

Presentation of financial information
Our portfolio includes investments managed directly by The Crown Estate, including assets where strategic partners share an interest through a lease arrangement; those which are managed through separate joint venture entities; and those where we hold a minority interest. This report has been presented on a proportionally consolidated basis reflecting The Crown Estate's proportionate interest of the underlying assets and liabilities, the basis on which we view the business as it reflects our underlying economic interest better than the legal nature of the investment. The proportionally consolidated results are considered 'alternative performance measures', as they are not defined under IFRS. A reconciliation between the reported results and these alternative performance measures can be found on pages 118-119.

Income statements
Our consolidated statement of comprehensive income is presented in two constituent parts: the revenue account and the capital account. The revenue we generate from managing the portfolio of assets net of associated costs and specified transfers to the capital account (Statutory transfers and by Treasury agreement) constitute our revenue account. All of the net profit generated in our revenue account ('net revenue profit') is paid to the Treasury annually for the benefit of the nation's finances.

Our capital account primarily comprises net revaluation gains, gains or losses on the disposal of assets and recoveries from the revenue income statement. The main volatility in the capital income statement arises from net revaluation gains and gains on the disposal of investments, which are explained on page 39. A more detailed analysis of the revenue and capital accounts can be found in note 1 on page 89.

Taxation position of The Crown Estate
As all our net revenue profit is paid to the Treasury, The Crown Estate is not subject to corporation tax or capital gains tax. The Crown Estate is subject to SDLT and VAT and aims to be transparent in its dealings with HMRC. The Crown Estate does not enter into any form of tax mitigation which could credibly be seen to be an unethical practice.

Financial resources

Consolidated revenue account

	Proportionally consolidated			
	2018/19 £m	2017/18 £m	Change £m	%
Revenue – excluding service charge income	**488.5**	476.7	11.8	2.5%
Direct costs (including net service charge expense)	**(75.0)**	(74.5)	(0.5)	(0.7%)
Gross surplus	**413.5**	402.2	11.3	2.8%
Gross surplus margin	*84.6%*	*84.4%*	–	*0.2%*
Indirect costs	**(30.7)**	(28.8)	(1.9)	(6.4%)
Operating surplus	**382.8**	373.4	9.4	2.5%
Net investment revenue and other income	**1.1**	(2.8)	3.9	139.3%
Treasury agreements and statutory transfers	**(40.4)**	(41.2)	0.8	1.9%
Net revenue account profit	**343.5**	329.4	14.1	4.3%

Our gross surplus increased 2.8% to £413.5 million as a result of additional income from acquisitions principally in central London and a full year's contribution from recently completed developments at Rushden Lakes and the Westgate Shopping Centre, our joint venture with Landsec in Oxford. As illustrated by the chart overleaf, development and acquisitions increased gross surplus by £8.0 million and £6.1 million respectively.

This growth was partially offset by a £6.0 million reduction from disposals, principally our interest in The Gibraltar Limited Partnership, a joint venture with the Hercules Unit Trust in June 2018. On completion the Partnership sold its interest in Fort Kinnaird and we acquired the Gallagher Shopping Park in Cheltenham from the partnership. Other disposals impacting our gross surplus included the partial sale of 20 Air Street to NBIM last year and the sale of strategic land and rural assets.

Offshore wind was a strong contributor as new offshore wind farms became operational during the year, increasing our gross surplus by £8.6 million.

Rushden Lakes, Northamptonshire
Out of Office Coffee, an independent coffee brand, is just one of our new customers.

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Performance
Financial review continued

On a like-for-like basis our gross surplus has reduced by £2.3 million. Lower than average wind speeds throughout the year resulted in a £3.8 million reduction in income from existing sites. Despite the current economic uncertainty the high quality of our assets and our approach of active management has resulted in relatively low vacancy rates. These were partly offset by lease surrender premiums and the upward effect of rent reviews. One-off adjustments improved gross surplus last year, and the absence of similar items this year reduced gross surplus by £3.2 million.

We have maintained direct costs at a consistent level to last year and, with increased revenue, our gross surplus margin improved marginally from 84.4% to 84.6%.

Indirect costs

Indirect costs have increased primarily as a result of investment in our team, as we invest in our operational capabilities and a broader range of skills for our business. This will enable the delivery of our long-term strategy to ensure the business remains resilient and successful in the future.

Net revenue account profit

Our net revenue account profit has increased by 4.3%, primarily as a result of revenue growth and an increase in interest income as a result of achieving higher interest rates from our cash reserves.

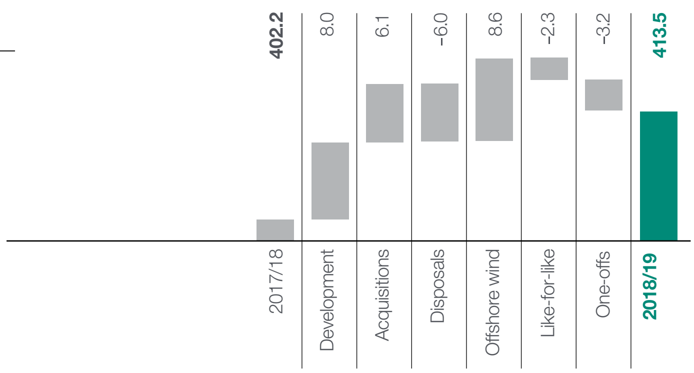
The Crown Estate has targeted a 5% compound annual growth rate in net revenue profit on a three-year rolling basis. Following discussion with the Treasury, and in the context of challenging market conditions, our long-term strategy for the business, and the planned investment in future-proofing our business, our people, platforms and processes, the target has been revised from 5% to 4% growth for the next two years (2019/20 and 2020/21).

Gross surplus bridge

£m

£413.5m

+2.8% (2017/18: £402.2m)



Balance sheet

	Proportionally consolidated			
	2018/19 £m	2017/18 £m	Change £m	%
Total property at valuation	**13,536.1**	13,256.6	279.5	2.1%
Cash	**826.7**	904.0	(77.3)	(8.6%)
Other net assets	**(33.9)**	(69.9)	36.0	(51.5%)
Net assets	**14,328.9**	14,090.7	238.2	1.7%

Net assets have increased by 1.7% to £14,328.9 million, driven mainly by a surplus of £205.6 million on the revaluation of investment properties and a gain on disposal arising from capital transactions. The principal components of our balance sheet are investment properties and cash which are considered in more detail below. Other assets and liabilities comprise mainly trade and other receivables, including unamortised incentives granted, and deferred income in respect of rents received in advance.

EU withdrawal

We have completed a thorough analysis of the impacts arising from the UK's decision to leave the EU, which has included a review of our legal, staff and commercial positions. As a result of that review, working alongside our managing agents, we have taken actions to mitigate foreseeable effects of any immediate disruption as a result of Brexit and we do not anticipate significant business disruption in the short term. As regards the implications of current uncertainty on the valuation of our investment properties, this is considered in the markets review on page 17.

As a business, we operate solely within the UK and we therefore have no export exposure and only a limited reliance on overseas suppliers. However, we are acutely aware of the short-term impact that this could have on our customers, and in the medium to longer term, the overall health of the economy. Our business is dependent on our customers and is affected by such economic uncertainty and this has the potential to impact our future performance. With regard to risk, consideration of EU withdrawal was undertaken by our Risk Group and the Board. That consideration has been integrated into our stated risks on pages 42-49 and formed part of our viability statement scenario planning.

Investment properties

Properties at valuation £m	**2018/19**	Restated** 2017/18
Investment properties	**12,429.4**	11,920.0
Investment properties in joint ventures	**930.7**	1,159.4
Owner occupied properties	**96.7**	91.8
Other property investments	**79.3**	85.4
Total property at valuation	**13,536.1**	13,256.6

**Investment properties has been restated following a change in accounting policy for properties sold on long leases. This is further explained on page 40 and in note 36.

The table above shows the fair value of properties as shown in the balance sheet on the basis of an open market valuation. An outline of the principal valuation methodologies and assumptions is given in note 20 to the financial statements.

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The total value of properties increased 2.1% to £13,536.1 million as illustrated by the investment property valuation bridge. We continued to invest in in our portfolios, making £196.6 million of strategic acquisitions principally in our Central London portfolio, and through £200.5 million of development expenditure, principally at Rushden Lakes. We made £323.2 million of capital sales. In our Regional portfolio, investment in our assets of £69.5 million is broadly matched with sale proceeds of £60.7 million, primarily arising from the sale of Fort Kinnaird by The Gibraltar Partnership net of repayment of debt.

The capital growth of £205.6 million represents £138.7 million of revaluation gains and £66.9 million of profit on sales achieved above book value, an overall growth of 1.5%.

The valuation surplus by portfolio table illustrates the sources of capital growth. The Central London portfolio increased in value to £8,156.1 million as a result of acquisitions and revaluation gains. The revaluation gains arise primarily due to letting activity and the effect of annual reversion gains on properties previously sold on a long lease. Equivalent yields of both office and retail space remained comparable with last year.

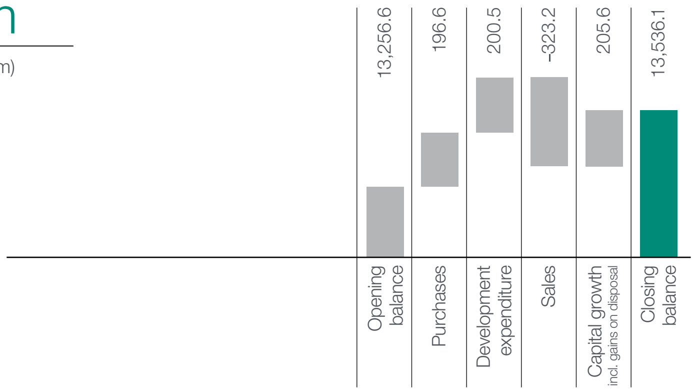
Our Regional portfolio decreased in value to £2,307.8 million as a result primarily of revaluation movements, reflecting the challenging occupational markets. The 7.1% deficit arises from an increase in equivalent yields on our retail assets. While the market remains challenging for our customers, we have low void rates and relatively few of the stores located in our assets were identified for closure in the many CVAs across the retail sector.

Investment property valuation bridge

£m

£13,536.1m

+2.1% (2017/18: £13,256.6m)



Valuation surplus by portfolio

	Value		Revaluation surplus/(deficit)	
	2018/19 £m	2017/18 £m	**2018/19 £m**	2018/19 %
Central London	**8,156.1**	7,737.2	**152.4**	1.9
Regional	**2,307.8**	2,540.2	**(177.7)**	(7.1)
Energy, Minerals & Infrastructure	**1,586.3**	1,394.1	**180.9**	12.9
Rural & Coastal	**1,164.7**	1,279.4	**(24.2)**	(2.0)
Windsor Estate	**321.1**	305.7	**7.3**	2.3
Total investment property	**13,536.1**	13,256.6	**138.7**	1.0
Profit on disposal			**66.9**	
Capital growth			**205.6**	1.5

The value of our Energy, Minerals & Infrastructure portfolio increased 12.9% to £1,586.3 million. This growth is primarily within offshore wind, specifically through the achievement of development milestones by our customers and as offshore wind farms under development become closer to power generation. During the year, we announced our intention to launch Leasing Round 4 of offshore wind capacity. We expect offshore wind to be a significant driver of capital growth over the next decade.

We have seen a valuation deficit of 2.0% in our Rural & Coastal portfolio caused by the consequential effect of medium-term uncertainty around farm income on agricultural land values, partially offset by gains in our strategic land assets. Strategic land and rural cash receipts from sales of £157.3 million were a key source of capital and, at £44.7 million, delivered the majority of the Group gains for sales above book value.

Strategic partners

We now manage £2,429.1 million (2017/18: £2,045.5 million) of funds on behalf of our strategic joint venture and joint operating partners. This increase is as a result primarily of additional investments and valuation gains in Regent Street. Across our portfolio, we believe our partners' further investment demonstrates the quality and continuing attractiveness of our assets to international investors.

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Glasshouse Street, central London
Our public realm investment across the portfolio includes new trees and planters on Glasshouse Street.

Cash flow

	Proportionally consolidated 2018/19 £m	2017/18 £m
Net cash inflow from operating activities	**415.4**	350.4
Net cash (outflow)/inflow from investing activities	**(161.4)**	48.6
Payment to consolidated fund less parliamentary supply finance	**(337.1)**	(337.5)
Other items	**5.8**	(0.3)
Net cash (outflow)/inflow	**(77.3)**	61.2
Opening cash	**904.0**	842.8
Closing cash	**826.7**	904.0

Our proportionally consolidated cash balance decreased from £904.0 million to £826.7 million. Operating activities generated £415.4 million, the majority of which is paid to the Treasury (Consolidated Fund), representing our net revenue profit payment. Operating cash flow is higher than net revenue profit as a result of statutory transfers and agreements with the Treasury which enable The Crown Estate to recoup capital expenditure from the revenue account providing a predictable source of working capital. Overall net cash outflow from investing activities amounted to £161.4 million, representing the excess of acquisitions over cash receipts from the sales of properties.

Accounting standards

In addition to adopting IFRS 9 (financial instruments) and 15 (revenue) this year, we have chosen to adopt IFRS 16 (leases) early. Our debt-free capital structure, our long-term approach to provisioning for receivables and the majority of our income being derived from leases, has resulted in there being no change in our financial performance or position arising from adopting IFRS 9 and IFRS 15.

In completing our assessment of IFRS 16 we have also reviewed our long lease arrangements, considered empirical evidence gathered since the previous accounting was adopted and compared our practices against industry practice.

On balance we believe it is most appropriate to treat extended leases as finance leases rather than operating leases. This change in accounting policy has resulted in the de-recognition of £1,633.1 million of assets and associated liabilities from the balance sheet and the classification of certain long leases as finance leases, with no change to net assets. In adopting IFRS 16, the lease of our head office is treated as the creation of a right-of-use asset with offsetting liabilities. The changes to our lease accounting have all been accounted for retrospectively.

Modern Slavery Act

Following the enactment of the Modern Slavery Act 2015, we have a legal obligation to outline how we prevent slavery and human trafficking occurring within our business and the organisations we do business with. We take this obligation extremely seriously and have put in place processes to ensure we can demonstrate to our stakeholders that slavery and human trafficking do not occur within our workplace and supply chain. For further details on how we are complying with the Modern Slavery Act, please visit our website: thecrownestate.co.uk/modern-slavery-act/

We adhere to all applicable laws in the UK, including those relating to human rights and employment. For our supply chain, which stretches beyond the UK, we are committed through our contractors and business partners to operate in accordance with the Universal Declaration of Human Rights, the International Labour Organization Core Conventions, and the Guiding Principles on Business and Human Rights endorsed by the United Nations Human Rights Council. We are not aware of any breaches during the year.

Taskforce for Climate-related Financial Disclosures (TCFD)

We have been working to identify our climate change risks and opportunities, both to assess the impact on the future resilience of our business and in order to begin disclosure in line with the recommendations of the TCFD. The recommendations are categorised under four headings as set out below:

Governance

Climate change is a material issue, included under the heading of the natural environment as reviewed by the Risk Group and Executive Committee and ratified by the Board as one of our key business risks (within Responsible Business risk).

Strategy

We have carried out a high-level review of risks and opportunities, categorised in alignment with the TCFD approach. Over the next year we will commence a detailed scenario analysis to determine our portfolio resilience looking at climate projections over different timescales.

St James's Market
Visitors to our St James's Market Summer Screenings enjoy films and popcorn as part of our programme of free activities.

Risk management

This scenario analysis will help inform risk management of our portfolio by identifying the material climate impacts and the level of risk they represent in order that we can put in place appropriate adaptation and mitigation measures.

Metrics and targets

We report against a number of relevant energy and carbon metrics and targets, see page 35 and our Performance against capitals report: thecrownestate.co.uk/performance-against-capitals

Supplier payments

We aim to pay our suppliers within 30 days of receipt of a correctly documented invoice, or on completion of a service where a fee is recoverable from a third party, or in a shorter period according to contract. Over the past financial year, we paid 71% of suppliers within the target period (2017/18: 71%). This includes disputed invoices and amounts recoverable from third parties. On average, suppliers are paid within 36 days of receipt of an invoice, and we are identifying ways to streamline our payment processes in order to ensure that suppliers are paid within our target. We observe the principles of the Better Payment Practice Code.

Charitable donations

Under the terms of the Crown Estate Act 1961, we are restricted in our ability to make charitable donations. As permitted by section 4(2) of the Act, we made donations during the year of £5,300 (2017/18: £5,540).

Viability Statement

In accordance with the 2018 UK Corporate Governance Code, the Board confirms that it has a reasonable expectation that The Crown Estate will continue in operation and meet its liabilities as they fall over the five years to 31 March 2024.

The Board's assessment of viability was carried out in the context that Parliamentary legislation, in the form of the Crown Estate Act 1961, underpins our existence, and it is reasonable to assume that this will continue to do so indefinitely. Set against this, the Board focused closely on the demands on our cash reserves over the chosen period, given The Crown Estate is prohibited from borrowing.

The Board's judgement was based on a process which included assessment of our principal risks, risk appetite, corporate strategy, and the strength of our balance sheet and our financial forecasts. The Board was supported by the Audit Committee's review of underlying information which included input from our Risk Group.

The five-year period was considered to be the most appropriate timeframe by weighing up the following indicators:

– Our Investment Strategy considers the market, our targets and overall strategy for deriving long-term sustainable value from our assets, over five years and beyond.
– Five years is a reasonable estimate of the life-cycle of our major development schemes from planning approval to letting.
– Our capital forecasting cycle is based on a five-year rolling assessment of capital requirements.

The latest rolling assessment of capital requirements includes contracted and planned expenditure on major developments, as well as assumptions arising from our Investment Strategy. Our principal risks are summarised in greater detail from page 42. Stress testing was performed on our resilience to the impact of those principal risks that were considered by the Board to affect most directly the viability assessment. In particular, the risks relating to adverse economic climate, delivery of our investment objectives and delivery of our major developments. This testing involved flexing a number of assumptions in the capital requirement forecasts to a significant degree through the development of severe but plausible scenarios. This enabled the assessment of the impact of the relevant risks in isolation, and in realistic combinations, on our net revenue profit and our balance sheet position, particularly our cash reserves. The results of this testing support the view that the business is viable over the period of review.

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Our integrated approach to risk and strategy

Risk: a key strategic tool

Having set a firm foundation for our risk work over the last two years, this year we have sought to optimise and clarify our approach. We have also learned lessons from what worked well and incorporated them into our ongoing refinement of our risk approach.

Risk governance

In our 2017/18 Annual Report we committed to review our risk governance, as part of streamlining our approach and driving excellence in what we do. That review was undertaken in April and May 2018, and endorsed by the Board at our May 2018 Board meeting. This work confirmed our risk accountabilities and responsibilities and updated the terms of reference of our Risk Group to ensure that the findings of the governance review were embedded.

Our governance supports our strategic risk architecture, which was confirmed by the Board in October 2017 and renewed in October 2018. Our risk architecture is summarised in the diagram below.

Strategic risk cycle

To ensure that we are working efficiently and delivering risk content in a timely manner and with the correct choreography to support our strategy formulation and implementation, the Board also endorsed our strategic risk cycle. This details the flows of risk information and analysis throughout the financial year. The strategic risk cycle is aligned to our strategy cycle, with two key sessions held by the Board each year:

- October Board strategic risk session focuses on risk and risk appetite for strategy formulation
- May Board strategic risk session covers risk and risk appetite for strategy implementation.

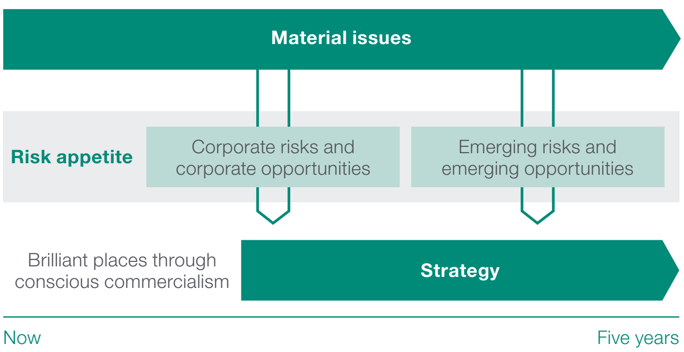
> “The business and the Board have worked hard this year to ensure that our strategic risk work is genuinely integrated into our strategy formulation and implementation.”
>
> **Kate Bowyer**
> Chief Financial Officer

Risk Group

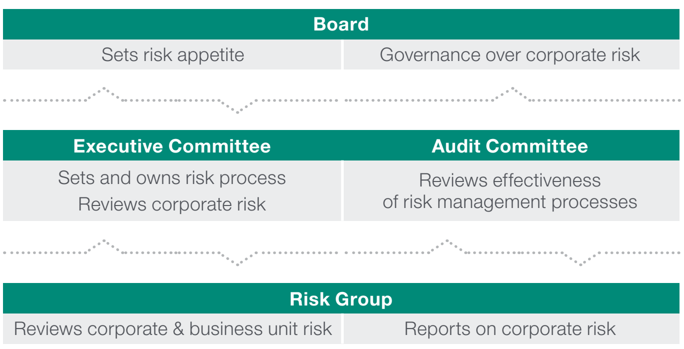
The Risk Group's position within our risk governance is detailed in the diagram below. Our Risk Group continues to drive the identification, treatment and reporting of risk within the business. It acts as a hub for our business leaders to discuss risk activity and take inputs on specific aspects of risk from our internal subject matter experts. This year particular attention was paid to subjects such as Brexit, security and supply chain risk. As a result of this work, we have developed a new principal 'supply chain' risk; and integrated our Brexit considerations into each of the other principal risks.

The Risk Group again played a central role in our annual material issues process, working with external experts. This year we paid particular attention to the way that innovation is impacting our material issues and our thinking was informed by input from an innovation lead at a major international law firm.

Our risk and strategy architecture



Risk management framework



Risk appetite

The Board undertook a review of our risk appetite in October 2018, as part of our Board strategy session. The Board agreed to continue to use the risk appetite model first adopted in October 2016. This model is based on six key risk themes, which flow across our business: economy and market; assets; stakeholder and reputational; people; support and systems; and legal, regulatory and constitutional.

Our risk appetite for each theme is shown in the table at the bottom right of this page. A summary of our risk appetite can be found below. The main change from last year is that our risk appetite for support and systems risk, and legal, regulatory and constitutional risk now align with our risk appetite for stakeholder and reputational risk.

At a high level, our risk appetite is: to take measured risk to drive outperformance, where we have confidence in our delivery by virtue of our critical mass and expertise in our core markets. Our risk appetite in relation to our market and our assets is moderate, and below that of our peer group.

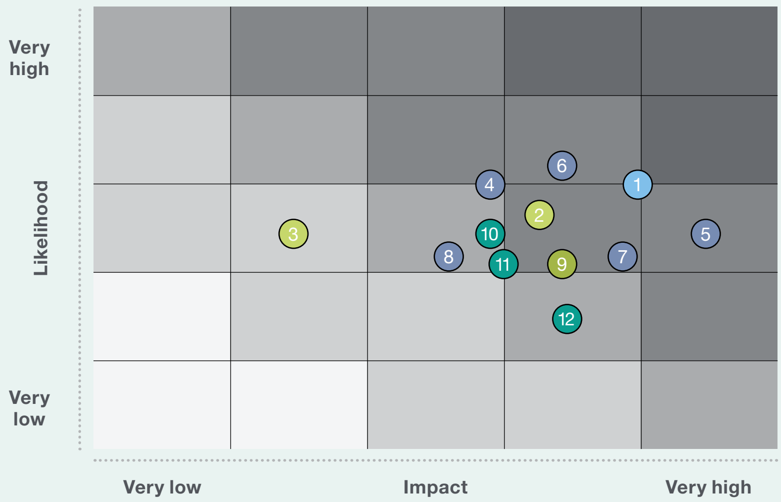
We do not take significant risk by investing large amounts of capital in risky or volatile asset classes. Similarly, we are conscious of the market and our exposure to central London, but choose to manage this by investing in prime assets through our exposure to a range of sub-sectors and covenants. Operationally, we have little appetite for taking risk that impacts our reputation and stakeholder relationships, or which challenges compliance with our obligations and responsibilities.

However, this year the Board augmented the risk appetite work by agreeing a sub-narrative for each category, and enhanced its connection to the Corporate Strategy. Of the sub-narratives, the key addition was the following appetite statement on our assets, in support of future innovation:

"We recognise the need to take risk with our product offering, especially with regard to concentration of our assets and the integration of services to our customers. We aim to be smart in exploring the full range of potential options for our assets and testing these at a controlled scale before proliferating."

Our principal risks and opportunities

The principal risks and opportunities we face in managing The Crown Estate and delivering our objectives are set out below and in the table overleaf. They are largely related to our portfolio of assets and are typical of a real estate organisation. These are not the only risks associated with The Crown Estate. The risks are grouped by risk theme rather than order of importance.

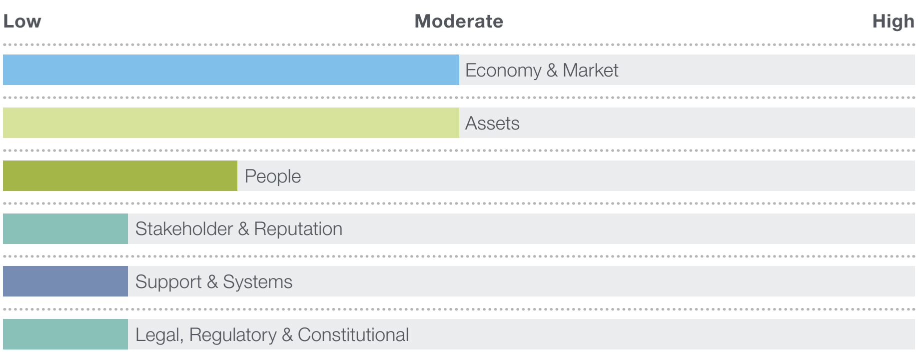


Our top risks and opportunities

1. Investment performance and economic uncertainty
2. Development strategy and implementation
3. Responsible business (new risk)
4. Ability to manage a major incident
5. Information security
6. Digital risk and opportunity
7. Change risk and opportunity (new risk)
8. Supply chain risk (new risk)
9. People risk and opportunity
10. Health and safety
11. Government policy
12. Strategic relationships with our partners

Note: the heat map highlights net-risk, after taking account of principal mitigations.

Summary risk appetite



Performance
Our risk and strategy architecture continued

Our KPIs See pages 12-13

1. Revenue profit growth
2. Total return
3. Employee survey ‘brilliant place to work’ score
4. Customer satisfaction score
5. Carbon emissions
6. Health and safety overall Incident Severity Score improvement

Risk and opportunity	Material issues	Principal mitigations
Economy & Market 1 2		
1 – Investment performance and economic uncertainty Our investment performance and ultimately our long-term strategy are key to driving total return and a strong income stream to the Treasury. Inevitably this is impacted by both external and internal factors, from the economy and consumer confidence to how we make investment decisions and constraints to delivery of our strategy i.e. limited availability/timing of access to funds, although we believe our long-term focus makes our business resilient. Economic uncertainty and pressures on the retail sector could threaten the achievement of our total return benchmark. This could be further compounded by the impact of the UK’s withdrawal from the EU and manifest in the following ways: (a) Weakening occupier demand and tenant failures that result in increased voids and defaults, particularly across our Central London and Regional portfolios, which have significant exposure to retail, leisure and office sectors. (b) Replacement of subsidies available to our tenant farmers. Reduced subsidies or alternate support mechanisms could lead to adverse profitability, downward pressure on rents and potential defaults. (c) Financing constraints, devaluation of sterling, and post-2020 subsidy funding could impact offshore wind project delivery resulting in slower than projected rate of growth in energy capacity and hence a reduced rate of growth in our income from offshore wind.	Reputation and trust Health of the economy Strategic relationships Changes to the way people work and spend their time	Board oversight and approval of future strategy for investment, with formal review of implementation and performance monitoring. Financial modelling and forecasting along with regular economic and market analysis, including covenant checks on our major tenants. Formal Investment Committee in place, with responsibility for scrutiny over proposed investment decisions (subject to clear delegated authorities). Exploration of joint venture investments and oversight of existing joint ventures through Joint Venture Oversight Group.
Assets 1 2 3 4 5 6		
2 – Development strategy and implementation The development of our portfolio and roll-out of our development pipeline play a key role in our overall strategy to ensure our portfolio meets changing customer demands and we deliver sustainable long-term returns. It is essential therefore, that our strategy for development is effective i.e. we provide the right products to attract customers and meet their current and future needs. It is also essential that our development pipeline is implemented effectively i.e. developments are completed to time, cost and quality to maximise the returns and retain the interests of our investors. As a result we face operational risks to the effective execution of our development programme including development overruns, development letting exposure, and/or supplier/sub-contractor failure. Adverse planning judgements can also have an impact on the roll-out of our development pipeline and the long-term vision for our portfolio.	Reputation and trust Health of the economy Strategic relationships Government policy and constitutional change	Development and Project Management Governance Framework. Regular development monitoring through Project Control Groups for our major developments. Third party due diligence and continuous monitoring of developer financial health. Robust evaluation and appraisal of major development business cases. Board and Investment Committee review and approval of major developments (subject to clear delegations). Detailed reporting of development pipeline progress to Board and Investment Committee.
3 – Responsible business The Crown Estate has a diverse portfolio and operates in a number of communities. Being a responsible business drives sustainability and builds trust in key parts of our value chain. There is a risk we could fail to direct and adapt our portfolio to align with our responsible business aims. For example, we could fail to adequately incorporate environmental sustainability in relation to major projects or asset management activity resulting in missed opportunities to drive long-term value and resilience.	Government policy and constitutional change The natural environment	Integrated approach to sustainability underpinned by Executive Committee oversight. Developments/refurbishments built to a high sustainability standard (e.g. BREEAM) to meet or exceed EPC standards with a clear framework provided under our Development Sustainability Principles. Offshore wind programme with defined objectives.

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Activity in 2018/19 and outlook	Change in impact compared to prior year	Change in likelihood compared to prior year
Our commercial remit of meeting our performance targets continues from year to year. The development of our Corporate Strategy is a key factor in ensuring we operate the business in a way that delivers both our annual targets and also ensures we remain a competitive and sustainable business that is able to successfully deliver value over the longer term. The development of our Corporate Strategy took place in summer 2018 and underwent a rigorous cross-business review process prior to Board approval in October. As well as economic change and the impact of the UK's withdrawal from the EU, we are operating against a backdrop of ever-increasing customer expectations, innovations in technology and the rise of industry disruptors. In order to deliver a resilient, world-class portfolio and sustainable performance over the longer term, work will continue in the year ahead to deliver our portfolio visions and business priorities to ensure we provide brilliant places for our customers.	↔	↔
Our development programme has progressed a number of schemes across our Central London and Regional portfolios. This has included completion of The Marq, providing 46,000 sq ft of office and retail space in St James's, and completion of further phases of our Rushden Lakes scheme in Northamptonshire. Looking forward, our five-to-ten-year longer-term development pipeline focuses on supporting the delivery of the aspirations set out in our Corporate Strategy. Our development pipeline will provide a range of accommodation, inherent flexibility, amenity, and enhanced public realm destinations to meet future customer needs. This will incorporate technological innovations and broader service provision, where relevant, that will help to create customer value and retention in the long term.	↔	↔
We have developed an approach on climate resilience in line with TCFD recommendations which will lead, in due course, to scenario planning analysis. Likely risks and opportunities have been identified, which point to the parts of the portfolio requiring more detailed resilience planning. In-depth risk analysis has already commenced on one part of the portfolio. For more detail see: thecrownestate.co.uk/performance-against-capitals Our integrated approach ensures we address the risk to our assets through sustainable acquisition and development. More widely, we continue to address the risks and opportunities generated by climate change, including for property and energy supply.	New	New

Performance
Our risk and strategy architecture continued

Our KPIs See pages 12-13

1. Revenue profit growth
2. Total return
3. Employee survey 'brilliant place to work' score
4. Customer satisfaction score
5. Carbon emissions
6. Health and safety overall Incident Severity Score improvement

Risk and opportunity	Material issues	Principal mitigations
Support & Systems 1 2 3		
4 – Ability to manage a major incident The Crown Estate portfolio in London is concentrated within Regent Street, St James's and Kensington, and could be at risk from a major incident or emergency such as a terror attack, cyber crime, civil unrest or extreme weather. There is a risk that while we have robust crisis and incident management arrangements in place, we fail to mobilise these effectively due to the scale or nature of any incident.	Reputation and trust Impact of technology and data on the business	Crisis Management Framework in place with clearly defined escalation processes and roles and responsibilities. Regular testing of crisis management and business continuity arrangements. Regular liaison with appropriate agencies. Insurance arrangements are in place and cover catastrophic events.
5 – Information security risk Our information systems play a key role in how we manage our business and managing information security is an important priority for us. Although we are confident in our ability to comply with legislation, such as the General Data Protection Regulation, any breaches that occur could result in significant damage to our reputation and stakeholder relationships, as well as leading to fines and penalties. Additionally, the corporate IT systems at the core of our operations, although secure, could remain exposed (as for most businesses) to criminal cyber-attacks, despite our attempts to fully secure them.	Impact of technology and data on the business	Information Security Group is in place with responsibility for liaising with appropriate authorities. The corporate IT infrastructure and systems are protected by a comprehensive Information Security Management System accredited under IS027001, including firewall threat and detection monitoring systems. Risk-based GDPR compliance processes in place. Mandatory e-learning and regular user testing.
6 – Digital risk and opportunity Understanding the needs of our customers is fundamental to the ongoing success of our business and forms an important element in shaping our strategy. However, failure to understand and adapt to fast-moving digital advances and technological change could pose a risk to the business. This could manifest through not understanding or foreseeing the impact of a digital change, particularly across the workplace and the retail sector, and/or not incorporating this into our forward portfolio vision. This could result in a loss of competitive advantage and a potential impact on the sustainability of our income stream. Technological change can also provide a significant opportunity for our business.	Impact of technology and data on the business Changes to the way people work and spend their time	Corporate Strategy programme. Digital and data group. Customer insight and analysis. Use of agencies who collect and manage consumer data on our behalf. Lessons learned from pilot initiatives.
7 – Change risk and opportunity Our Corporate Strategy sets out how we will continue to ensure we deliver brilliant places for our customers in the short and long term against a backdrop of continued change and disruption in our industry and wider macro-environment. There is a risk that change activity set out within our Corporate Strategy does not deliver against our aspirations. For example, while we are increasing the skills and capability of the business through recruitment of key individuals with diverse experience, and a focus on areas such as digital and data, there is a risk that we do not manage this effectively, resulting in unco-ordinated change with insufficient oversight. The pace of change will also be a key factor in ensuring we adapt to evolving customer needs and technology against an external environment of disruption. This provides a significant opportunity for us to deliver long-term value to our business and importantly our customers.	Changes to the way people work and spend time Impact of technology and data on the business Availability of skills and talent	Clear Corporate Strategy endorsed and approved by our Board. Dedicated programme management structure. Delegations of Authority. Proactive focus on people, culture and resourcing as a key element of our strategy.
8 – Supply chain risk We have a diverse supply chain which supports the business in delivering its objectives right across our portfolio. This ranges from construction development of major schemes to facilities management. As supply chains become more diverse and complex, there is a risk that we do not adequately manage supply risks in relation to price, performance and contracting. This also increases the risk of non-compliance of our supply chain with laws and regulations.	Reputation and trust Strategic relationships	Corporate Procurement Framework. Relaunch of guidelines together with reinforcement and ongoing communication across the business. Proactive focus on procurement compliance.

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Activity in 2018/19 and outlook	Change in impact compared to prior year	Change in likelihood compared to prior year
This year we have focused on strengthening our operational resilience capability, including new roles and responsibilities and reporting processes. Looking forward, we will continue to focus on maintaining business resilience; we will build on the extensive work already undertaken to enhance our health and safety, crisis preparedness, security and business continuity provisions. This will be supplemented by processes to ensure we maintain links with appropriate security bodies.	↔	↓
We continue to focus on ensuring our business remains resilient to threats to our information. This has included a programme of activity to ensure we have appropriate tools, technology and processes to mitigate against cyber-threats. Looking forward, we have a programme to evolve our technology environment through secure business-focused applications that provide enhanced insight and analysis to the business.	↑	↔
Our strategy recognises and responds to the fact that innovations in technology, and the rise of industry disruptors, pose both a risk and an opportunity to our business. We have developed our strategy to ensure our business uses digital advances, data and technology to best achieve our long-term aspirations and objectives. Looking forward, we have commenced a number of initiatives that will help shape the products and services we offer and build our data insight capability.	↔	↔
Following the approval of our Corporate Strategy by the Board in October 2018, we have focused on developing an effective delivery structure. This has included the genesis of a strategy delivery programme board, and a series of workstreams and business priorities that will be a key focus over the short and medium term.	New	New
We have focused on strengthening our procurement processes to ensure we are managing the risks in relation to price, performance and contracts. This has involved appropriate oversight of key supplier relationships. Looking forward, we are seeking to support business teams with specialist procurement expertise.	New	New

Performance
Our risk and strategy architecture continued

Our KPIs See pages 12-13

1. Revenue profit growth
2. Total return
3. Employee survey ‘brilliant place to work’ score
4. Customer satisfaction score
5. Carbon emissions
6. Health and safety overall Incident Severity Score improvement

Risk and opportunity	Material issues	Principal mitigations
People 3		
9 – People risk and opportunity Given our people are one of our key assets, the roll-out and implementation of our People Strategy is an important factor in our ability to deliver our long-term goals. There is a risk that we fail to implement our People Strategy effectively, which prevents us from rewarding, retaining or recruiting key talent, particularly when compared to our listed peer group, and during periods of market buoyancy.	Availability of skills and talent Reputation and trust	Clear, Board approved, People Strategy. Remuneration Committee oversight and appointment of advisory reward consultants. Remuneration benchmarking and industry comparison. Strong recruitment processes together with active succession and talent development arrangements.
Stakeholder & Reputation, Legal, Regulatory & Constitutional 4 6		
10 – Health and safety We own a diverse range of properties (forests, parks, farms, shoreline, rivers and seabed, retail parks, offices, residences etc.) and our aim is to ensure that these are safely worked, developed and enjoyed by staff, tenants, customers, contractors and members of the public. A significant health and safety incident could result in serious harm to members of staff, suppliers, tenants or other persons, leading to fines or penalties and damage to our reputation.	Reputation and trust	Development and roll-out of management systems accredited to OHSAS 18001. Comprehensive regular reporting to the Executive Committee and Board. Health and safety training, programme of compliance reviews, Incident Reporting Hotline, and promotion of health and safety culture.
11 – Government policy The Crown Estate is an independent commercial business, created by an Act of Parliament. Government policy can have an impact on areas of activity such as our offshore wind leasing programme, Board appointments, and activities impacted by devolution.	Government policy and constitutional change	Regular liaison with HM Treasury. Ongoing review of upcoming legislative/policy changes on our business. Strong working relationships with stakeholders across Government.
12 – Strategic relationships with our partners We work with a number of strategic partners through joint ventures and arrangements. Maintaining effective relationships and trust is a key element of all successful business. A breakdown in those relationships and hence the trust of our real estate investment partners, could result in an inability to deliver our objectives particularly in relation to the asset management and development of our Central London and Regional portfolios.	Strategic relationships Reputation and trust	Regular partner and stakeholder engagement. Best-in-class commercial reporting to our joint venture partners. Robust joint venture governance processes to support compliance and performance. Joint Venture Operations Group provides formal reports to Investment Committee and Audit Committee.

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Activity in 2018/19 and outlook	Change in impact compared to prior year	Change in likelihood compared to prior year
Our people are a key asset to our business. This year we have focused on developing our People Strategy to ensure that we continue to build a brilliant place to work that attracts, retains and develops talent. To enable this, we're recruiting colleagues with new skillsets and ways of working to deliver products and services that our customers value. We will continue to focus on: culture and values; performance and reward; talent, resourcing and development; and organisation effectiveness. We are an agile organisation and will use this to support new ways of working, the wellbeing of our employees and effective internal communications.	⟷	⟷
Our health and safety strategy continues to focus on building and maintaining an effective health and safety culture. Thorough reporting has been in place throughout the year and will continue to be a key management priority.	⟷	⟷
We work closely with the Treasury and also monitor wider Government policy, constitutional change and political uncertainty, particularly within the context of Brexit. Generally our approach is to look beyond the current dynamics and focus on delivering long-term sustainable growth.	⟷	⟷
Effective stakeholder engagement has been and continues to be an area of strategic significance for us. Furthermore, with approximately 40% of The Crown Estate portfolio in managed joint ventures, understanding the needs of our strategic partners remains critical to our reputation, the viability of our business model and maintaining outperformance.	⟷	⟷

Governance
Delivering strategy with long-term resilience

The Crown Estate's commitment to corporate governance is motivated not just by compliance, but by a deep belief that good governance drives our business forward.

Our strategic direction

> "The Crown Estate is a long-term business; one that seeks to be an exemplar in all that it does for its customers and stakeholders."
>
> **Robin Budenberg**
> Chairman

In last year's Annual Report I wrote with optimism about The Crown Estate's continued ability to evolve and the opportunities presented by the technological, societal and demographic changes that are having a profound impact upon the real estate sector.

As expected, over the last 12 months the business has faced significant uncertainty, not just in our direct markets but also as a result of a more challenging external environment.

You will read throughout this report that we are responding to these challenges by focusing our strategy on our customers, taking a more innovative approach to our activities and doing so with a firm commitment to acting responsibly.

As a Board, we are clear from our work that the business model of The Crown Estate will change significantly in the next few years, as the skills, experience, knowledge and approach required to harness future opportunities are integrated into our ways of working. We are pushing forward on the steps needed to enable that change. Visions are becoming a consolidated strategy for the business, capability requirements are being mapped, and new and diverse people are joining the organisation to expand our thinking.

The Board has been working with our senior management team to ensure that the guiding principles for our future success are embedded in the changes that we are making. We are, and must continue to be, a business that seeks to act in the right way for all of our stakeholders, understands the importance of our culture and diversity and recognises the need to work in partnership to develop our spaces, amenities and services.

As we reflect on the last year and look forward to what is to come, I feel that The Crown Estate has made good progress and stands ready to write a new chapter of our long and successful history.

Needless to say, with a heightened level of activity within the business, the Board has been equally busy this year. I have sought below to expand on some of the key areas of focus for us: engaging our customers, our broader value creation, our governance and changes to our team.

Customers and products

In response to the disruption within our real estate markets, we will increasingly use a customer value lens to define our product and service offer, aligned to our future development pipeline and the unique opportunities available to the business, particularly in central London. Forming closer relationships with our customers and working better to understand their needs will be crucial in helping us provide the facilities, products and services that they will expect.

continued overleaf

Governance
Chairman's introduction continued

Customer relationships, research and insight will be central to ensuring our future success, and we will need to improve and enhance our digital and data capabilities. We also know that we must be a responsible custodian of data and to that end we have spent significant time developing our approach to information security and privacy, with a particular focus on extending that approach into our supply chain.

This year we launched our first flexible workspace offer, One Heddon Street, and we have continued to broaden the range of uses and experiences at Rushden Lakes through our management and development activity. This marks just the beginning of our ambition to become a real estate business that really works for its customers.

Responsibility and society

Our statutory mandate requires that The Crown Estate acts as a good manager of the assets that are entrusted to us and that we do more than simply maximise short-term financial performance. To that end, we continue to think hard about our role in society – ensuring that we are acting responsibly and making positive contributions to our people, places and communities. This will be fundamental to ensuring the long-term success of The Crown Estate.

Governance

You will see that this Governance section has been prepared under the revised UK Corporate Governance Code. We have used the implementation of the new Code as an opportunity to assess and enhance our corporate governance. Our continuing commitment to voluntary application of this important benchmark is a key part of our seeking to ensure that our operations are understandable, transparent and comparable – assisting our stakeholders in understanding our business and, we hope, deepening your trust in our approach.

At the same time, we are clear that to be successful in new offerings, we need to be able to take controlled risks that allow us to scale our products quickly and efficiently. We have therefore updated our risk appetite, and in turn, have challenged management to refine and improve our operational governance in response. You will see examples of the first wave of changes that we have made and the areas of focus, throughout this Governance section.

Succession and structure

Dipesh Shah OBE retired from the Board on 31 December 2018 after eight years as a Commissioner. We wish Dipesh the very best for the future and thank him for his contributions, in particular the expertise he brought to helping our talented team in their management of our offshore renewables assets.

This coming financial year will mark a significant milestone for our senior management team, with Dame Alison Nimmo DBE stepping down as Chief Executive in December 2019, following two terms in the role. Under her leadership, The Crown Estate has undergone a substantial transformation, developing a progressive approach with a real sense of direction, guided by a clear purpose.

We are deeply grateful to Alison for all that she has done for The Crown Estate. It is a contribution marked not just by my words, but also by Alison's well-deserved appointment as a Dame in this year's New Year's Honours list.

To manage the transition to come, the Board has set itself a clear objective to support our leadership and our staff during the handover period. Our new Chief Executive, Dan Labbad, will bring proven leadership, international property expertise and a long-held commitment to sustainability and the broader community. While we will miss Alison, we are looking forward to the future under Dan's leadership.

To conclude, this Annual Report is an example of our commitment to operating with transparency with our customers, partners and stakeholders. Over the course of the year I hope that we are ever clearer in describing the contribution that we make to both our nation's finances and to the society within which we work. My other hope is that this Annual Report gives you a sense of the energy and ambition that sits within The Crown Estate and we would, as ever, welcome your feedback and input on what we are doing.

Robin Budenberg CBE
Chairman

Our corporate culture

The Crown Estate prides itself on having a strong corporate culture supported by a well-defined purpose and core values. The 2018 Corporate Governance Code is however a timely reminder of the importance of a Board truly understanding the culture of its organisation.

The Crown Estate operates with approximately 420 staff, in two principal locations. Our annual One Voice survey tracks staff engagement ensuring an accurate picture of culture is readily accessible. In undertaking its review of the right way to continue to engage, the Board has therefore taken a proportionate approach in light of the scale of our geography and population, while also noting the provisions of the 2018 Corporate Governance Code.

The Board has implemented a number of new initiatives to ensure that we have a true and accurate view of the culture of The Crown Estate. While our people have always been on the Board's agenda, we wanted to further structure how culture features in the Board calendar:

Each March

First 'People' themed Board meeting; including updates on our People Strategy and complete and transparent reporting, and discussion of our staff engagement survey, One Voice.

Each September

Second 'People' themed Board meeting; including formal reporting on our People Strategy and direct reporting to the Board from existing corporate groups, such as our network and user groups.

Throughout the financial year

The Board are implementing 'On-Board', a series of direct engagement events with staff to ensure that all Board Members and Board Counsellors are afforded regular opportunities to engage with staff around corporate topics and to then report back to the Board at the following Board meeting.

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Guide to the Governance section

The Crown Estate's principal governance compliance requirements can be broadly split between: the Crown Estate Act 1961; the framework agreement between The Crown Estate and the Treasury; and voluntary application of the 2018 UK Corporate Governance Code to our business (where consistent with the Crown Estate Act 1961). You will see below that we have adopted the central themes of the 2018 UK Corporate Governance Code to guide you through our approach to governance.

Aligning with the 2018 UK Corporate Governance Code

The Crown Estate places good corporate governance at the heart of its approach and has voluntarily adopted the Financial Reporting Council's UK Corporate Governance Code as a benchmark for its corporate governance performance. We also use the UK Corporate Governance Code as a means to demonstrate good governance practice, with transparency and clarity, to our partners and stakeholders.

As a progressive organisation, The Crown Estate welcomed the update to the 2016 UK Corporate Governance Code. We have set out (to the right) preparatory steps taken to align our approach with the 2018 UK Corporate Governance Code. Substantial progress was made in the 2018/19 financial year and this has enabled us to report against the 2018 Corporate Governance Code in this Governance section.

Spring/summer 2018

The secretariat team at The Crown Estate engaged with industry, governance experts and the Financial Reporting Council to assess and plan for the proposed changes to the 2016 UK Corporate Governance Code.

Autumn 2018

Following the publication of the UK Corporate Governance Code 2018 and on the instructions of the Board, the secretariat team undertook a review of the terms of reference for The Crown Estate's Board and its committees, and prepared revised terms of reference.

December 2018

The Company Secretary presented the updated terms of reference for the Board and its committees to the Board for approval. The Board approved those updated terms of reference for implementation from 1 January 2019, and instructed the secretariat team to review the Board's broader activities in terms of alignment with the 2018 UK Corporate Governance Code.

February 2019

The Board received and reviewed a gap analysis of current Board activity as against the UK Corporate Governance Code 2018. The Board then approved the implementation of the recommended supporting initiatives to the revised terms of reference, and concluded that the Board and its committees should henceforth be reporting against the 2018 UK Corporate Governance Code.

Our Governance section

This Governance section has adopted the themes of the 2018 UK Corporate Governance Code to aid its clarity of reporting.

Board leadership and purpose

Our Board has a clear purpose and leadership responsibility. Understand how it sets strategic direction and provides independent and objective rigour for The Crown Estate's strategic thinking.

Division of responsibilities

Read about how our Board has structured the corporate governance of The Crown Estate to ensure clear decision-making with appropriate checks and balances.

Composition, succession and evaluation

Find detail on how our Board is committed to continuous improvement and the highest possible standards, while our Nominations Committee seeks to ensure we properly identify and manage our talent pipeline.

Audit, risk and internal control

See how our Audit Committee oversees the structures by which we manage risk and ensures proportionate controls.

Remuneration

Find a report on how our Remuneration Committee acts to ensure that the remuneration of all our staff promotes the success of The Crown Estate and long-term decision-making.

Our Board

Our Board brings a diversity of skill, experience and approach, which underpins our decision-making. Our Board's purpose is founded on independence and diverse thinking, and leveraging that to set strategy and constructively challenge our business to perform to its best, in the long term.

Terms of appointment
Board Members of The Crown Estate are appointed as a Commissioner under Royal Warrant for a period of four years. A Board appointment may be renewed for one further period of four years, with a maximum term of service of eight years as a Board Member.

The Crown Estate Act 1961 specifies that there may be no more than eight Commissioners, one of whom will be First Commissioner, and act as Chair of the Board. Board Counsellor appointments are not to the statutory position of Commissioner; and are therefore made under a contractual appointment, normally for a period of one or two years.

Key
- (A) Audit Committee Member
- (R) Remuneration Committee Member
- (N) Nominations Committee Member
- (A) Audit Committee Chair
- (R) Remuneration Committee Chair
- (N) Nominations Committee Chair

Board diversity*

Maintaining an appropriate balance, including a diverse range of skills, experience, knowledge and background on the Board is of paramount importance. Gender, social and ethnic diversity are significant elements of this.

Gender

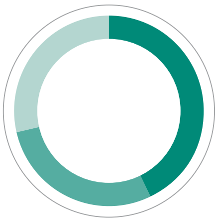
Female

57%

Male

43%

Tenure in role



1-3 years	43%
3-5 years	28.5%
5 years +	28.5%

*Diversity statistics are calculated by reference to Board Members only, as at 31 March 2019.

Robin Budenberg CBE

Chairman, Independent Non-Executive Board Member and First Commissioner

Appointment
Robin took up the post of Chairman of The Crown Estate on 1 August 2016.

Tenure: 3 years

N

Key strengths
- Finance
- Leadership
- Strategic overview
- Governance

Experience
Robin has advised companies on strategy and governance throughout his career and was responsible for oversight of these issues when managing the Government's investments in UK banks following the 2008 financial crisis. He is a qualified Chartered Accountant and holds a Bachelor of Law from the University of Exeter. He was awarded a CBE in 2015, for services to the taxpayer and the economy.

External appointments
Robin is currently London Chairman of Centerview Partners and a Non-Executive Director of Charity Bank Ltd and Big Society Trust. Robin is the former Chairman and Chief Executive of UK Financial Investments Ltd (UKFI).

Dame Alison Nimmo DBE

Chief Executive, Executive Board Member and Second Commissioner

Appointment
Alison took up the post of Chief Executive of The Crown Estate on 1 January 2012, and was reappointed on 1 January 2016.

Tenure: 7 years

Key strengths
- Leadership
- Corporate overview
- Government relations
- Urban regeneration/Property

Experience
Alison worked on the London 2012 Games for over eight years, originally as part of the bid team and then subsequently as Director of Design and Regeneration at the Olympic Delivery Authority (ODA). Previous roles have included Chief Executive of Sheffield One and Project Director of Manchester Millennium. She was awarded a CBE for services to urban regeneration in 2004 and a DBE for public service and services to the Exchequer in 2019.

External appointments
Alison is a Non-Executive Director of Berkeley Group, a Trustee of UK Green Building Council and Chair of the CBI's Economic Growth Board. She is also a Council Member of Imperial College London and Chair of its White City Syndicate.

Paula Hay-Plumb

Independent Non-Executive Board Member

Appointment
Paula was appointed to the Board on 1 January 2015, and reappointed on 1 January 2019.

Tenure: 4 years

A N

Key strengths
- Finance
- Governance and audit
- Regeneration

Experience
Paula is an experienced director in both the public and private sectors. A Chartered Accountant, she spent nine years on the Board of national regeneration agency, English Partnerships, and in 1997/98 chaired the Government's Coalfields Taskforce.

External appointments
Paula currently acts as a Non-Executive Board Member of Hyde Housing Association, Aberforth Smaller Companies Trust plc and The Oxford University Hospitals NHS Foundation Trust. She is also a Trustee of Calthorpe Estates.

Ian Marcus
Independent Non-Executive Board Member and Senior Independent Board Member

Appointment
Ian was appointed to the Board on 1 January 2012, and reappointed on 1 January 2016. He was appointed Senior Independent Board Member on 31 January 2015.

Tenure: 7 years

R N

Key strengths
– Real estate investment banking

Experience
Ian was in the banking industry for over 32 years, joining Credit Suisse First Boston in 1999 to establish the Real Estate Group, and became Managing Director and Chairman of European Real Estate Investment Banking. He is past President of the British Property Federation, past Chairman of the Investment Property Forum and for ten years chaired the Bank of England Commercial Property Forum.

External appointments
Ian is a Trustee of the Prince's Foundation, a member of Redevco's Advisory Board, the Senior Independent Director for both Secure Income REIT and Shurgard Self Storage and a Non-Executive Director for Town Centre Securities Plc. He was appointed as a Senior Consultant to Eastdil Secured and Wells Fargo Securities in 2013 and is a Senior Advisor to Work.Life and Elysian Residences. He is also Chairman of the European Advisory Board for Wharton Business School's Real Estate faculty and a member of the University of Cambridge Department of Land Economy Advisory Group.

Kate Bowyer
Chief Financial Officer and Executive Board Member

Appointment
Kate was appointed to the Board on 1 January 2017 (having been appointed as Chief Financial Officer on 3 October 2016).

Tenure: 2 years

Key strengths
– Real estate finance

Experience
Kate has led The Crown Estate's finance and business technology teams since October 2016. She joined from intu properties plc where she had been Director of Finance. She had previously managed intu's investor relations after joining in 2000 as Group Financial Controller. Kate qualified as a chartered accountant with Coopers & Lybrand (now PricewaterhouseCoopers) in 1995, working in their Canadian and corporate finance practices.

External appointments
Kate is a Trustee of Westminster Amalgamated Charities.

James Darkins
Independent Non-Executive Board Member

Appointment
James was appointed to the Board on 1 January 2016.

Tenure: 3 years

A R

Key strengths
– Strategic leadership
– Real estate investment management
– Joint ventures

Experience
James has an extensive track record of success in the global real estate investment management industry. From 2001 he led the expansion of Henderson's real estate business in Europe and Asia Pacific. He retired as Chief Executive of TH Real Estate (now Nuveen Real Estate) in 2015. TH Real Estate was formed as a joint venture between Henderson and TIAA, becoming the world's fourth largest real estate investment manager.

External appointments
James is Chairman of the Trustees for the Walberswick Common Lands Charity and Chairman of the Blyth Estuary Partnership.

Lynda Shillaw
Independent Non-Executive Board Member

Appointment
Lynda was appointed to the Board 1 January 2018.

Tenure: 1 year

A

Key strengths
– Real estate, retail and infrastructure
– Finance

Experience
Lynda has broad experience from managing multifaceted property estates across different regions of the UK, and different asset classes, including office, retail and farmland. She has a deep interest in sustainable placemaking, focusing on nurturing a sense of community in both urban and rural environments.

External appointments
Lynda is currently Group Property Director at Town Centre Securities Plc where she is responsible for its investment and development portfolios in Leeds, Manchester, Scotland and London. She is also a Non-Executive Director of VIVID; and Chair of the LandAid Charity's North-West Region.

Gareth Baird
Board Counsellor

Appointment
Gareth was first appointed to the Board on 1 October 2009 and retired from the Board on 30 September 2017. He was appointed as Board Counsellor on 1 October 2017 and reappointed on 1 October 2018.

Tenure: 9 years

Key strengths
– Farming
– Enterprise

Experience
Gareth is a third generation tenant farmer involved in arable and beef production near Kelso in the Borders and is a leading figure in Scotland's agricultural and food and drink sectors. Previously, Gareth chaired the South of Scotland Regional Advisory Board of Scottish Enterprise.

External appointments
Gareth is Chairman of Scott Country Potato Growers Ltd, Vice Chairman of Grainco Ltd, and a Director of Scotland Food and Drink. He is a fellow of the Royal Agricultural Society and Deputy Lord Lieutenant for Roxburgh, Ettrick and Lauderdale.

Professor Peter Madden OBE
Board Counsellor

Appointment
Peter was appointed as Board Counsellor on 1 January 2014 and reappointed on 1 January 2018.

Tenure: 5 years

R

Key strengths
– Sustainability
– Urban innovation
– Digital transformation

Experience
Peter is Professor of City Futures at Cardiff University, Chair of Building with Nature, and Founder Director of Ecovivid. Previously he was CEO of Future Cities Catapult, a global centre of excellence on urban innovation, Chief Executive of Forum for the Future, a sustainability non-profit organisation, Head of Policy at the Environment Agency, and Director of Green Alliance. He was awarded an OBE in 2014 for services to environmental protection and sustainable development. Previous Board roles have included the Smart London Board, London Sustainability Exchange, South West Regional Development Agency and Groundwork UK.

External appointments
Peter is on the Board of Bristol Energy, a Fellow of Cardiff University Data Innovation Research Institute, and a member of Ingersoll Rand's Advisory Council.

Our Board's year

Our Board activity calendar has been refined to align with our strategic focus on our customers, our resilience and our performance as a responsible business.

Strategy and innovation

- Undertook the Board strategy session.
- Undertook strategic risk sessions.
- Approved The Crown Estate's Corporate Strategy for implementation.
- Progressed the strategic vision and customer insight work, for each Crown Estate portfolio.
- Reviewed our approach to the roll-out of digital integration and our approach to data, insights and research.

Financial performance

- Reviewed regular performance updates, including financial and non-financial metrics.
- Reviewed regular market updates and sector economic analysis.
- Approved the financial targets and budgets for 2019/20 and the three-year projections.
- Reviewed our performance modelling in support of the Corporate Strategy.
- Refreshed The Crown Estate's treasury policy.
- Undertook retrospective investment appraisals.

Customers and assets

- Approved the principles of the Round 4 offshore wind leasing programme.
- Approved the purchase of 30 Warwick Street.
- Approved the principles of the sale of the Laxton Estate.
- Approved future plans for Rushden Lakes, Hemel Hempstead and a number of our rural assets.
- Refreshed our vires analysis to support future product delivery for our customers.

People, culture and values

- Reviewed staff engagement survey results.
- Endorsed the People Strategy for inclusion in The Crown Estate's Corporate Strategy.
- Received regular reports on people and future resourcing to deliver the Corporate Strategy.
- Set the Board objectives for the 2019/20 financial year.

Risk management and internal control

- Reviewed and approved The Crown Estate's revised risk governance.
- Considered and approved The Crown Estate's material issues.
- Reviewed regular reports on assurance from the Audit Committee.
- Undertook detailed review of risk and control, with particular focus on information security and procurement/supply chain management.

Governance and stakeholder management

- Approved new terms of reference for the Board and its committees.
- Evaluated the effectiveness of the Board, our Board Members and the Chairman.
- Approved our viability statement and our Annual Report for 2017/18 as fair, balanced and understandable.
- Received regular stakeholder engagement updates.
- Approved The Crown Estate's register of interests.

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Our approach to delivering long-term value

The Crown Estate was established to last forever; a principle that sits at the core of how we shape our governance and our strategy.

The role of the Board

Our Board's role is defined within the Crown Estate Act 1961 and expanded through its detailed terms of reference, which were revised in consultation with the Board and approved in December 2018.

The terms of reference include the following principal duties:

- setting the purpose and strategic direction of The Crown Estate
- ensuring delivery through approving the strategies and holding management to account
- supporting the culture and values of The Crown Estate
- setting the risk appetite of The Crown Estate and overseeing the proper delivery of risk management
- ensuring that The Crown Estate has effective policies in place, in particular for corporate governance, information security, privacy, and health and safety
- approving exceptional transactions
- ensuring the delivery of a proper controls and assurance environment.

Generating long-term value

Sustainability has been a central principle of The Crown Estate's operation for some time and is drawn out specifically in the duties of the Board. The Board terms of reference set clear requirements: that it ensures the delivery of The Crown Estate's statutory mandate in perpetuity; that the long-term view of management is pushed down into our business decision-making through the challenge provided by the Board; and the content requirements in support of recommendations and Board paper preparation.

The approach to sustainable value creation is supported by the Board's strategic risk work. Every Board strategy session starts with strategic risk and opportunity to frame the strategic discussion that follows.

Alignment between our people, strategy and purpose

Culture and our people have been central to the Board's review of approach and terms of reference for the Board and its committees. This year, a key step was the Board's approval of a new People Strategy for the business, which has been incorporated into our Corporate Strategy. Our People Strategy is framed by our long-term strategic goals and our purpose, to ensure that we seek alignment and maximise the potential for long-term value creation within the business.

The implementation of our People Strategy will be closely overseen by our Board with regular reporting and validation from our executive team.

Board visits in 2018/19

Our Board undertook three visits as a group this financial year, including our annual visit to Windsor Great Park in May 2018 and a walking visit across the Central London portfolio in March 2019.

The third visit sought to give a broader view of The Crown Estate, as the Board visited a substantial strategic land holding to the east of Hemel Hempstead. The Board's visit was supported by our Regional team, who were also able to show the Board aerial drone footage of the site and a virtual reality experience.

Board visits continue to be a key route for the Board to engage with our assets and our team.

Read more on page 61

Our constitution

The Crown Estate has a unique constitution, managing assets on behalf of the Crown, under a statutory mandate overseen by the Treasury.

The Crown Estate's constitution

The Crown Estate Act 1961 adopted the recommendations of the Report of the Committee on Crown Lands 1955 (known as the 'Eve Report' after its author, Sir Malcolm Trustram Eve), which envisaged the role of the Crown Estate Commissioners as analogous to that of trustees of a trust. It established the Crown Estate Commissioners as a corporate body operating with an independent commercial mandate in the management of the Crown Estate. As such, the Crown Estate Commissioners is a statutory corporation and not a company for the purposes of the Companies Act 2006. The formal name of the organisation is the Crown Estate Commissioners, but it operates under the trading name 'The Crown Estate' and any references to the 'Commissioners' in this report are to the individual Executive Board Members and Independent Non-Executive Board Members.

The primary statutory duty of the Board is to maintain The Crown Estate as an estate in land and to maintain and enhance its value and the return obtained from it, but with due regard to the requirements of good management. The Crown Estate has the authority to perform all acts of the Crown's right of ownership, subject only to any restrictions in the Crown Estate Act 1961.

The key restrictions are:

- The Crown Estate may only invest in interests in land within the UK; and may also hold gilts and cash. Investment in equities or land outside of the UK is not permitted
- The Crown Estate must comply with written directions about the discharge of its functions under the Crown Estate Act 1961, if given to it by the Chancellor of the Exchequer or the Secretary of State for Scotland
- The Crown Estate cannot borrow.

The revenue profit of The Crown Estate is paid into the UK Consolidated Fund each year, where it is added to the funds arising from general taxation.

The Treasury

The Treasury is charged by the UK Parliament with oversight of The Crown Estate and acts as The Crown Estate's sponsoring department. That oversight encompasses those funds which are provided by Parliament (Resource Finance) to The Crown Estate under Paragraph 5 of The First Schedule to the Crown Estate Act 1961, as a contribution towards the cost of Board Members' salaries and the expenses of their office.

The arrangements for management as between the Treasury and The Crown Estate are recorded in a framework document, which can be found on The Crown Estate's website and was most recently updated in 2018: thecrownestate.co.uk/hm-treasury-and-the-crown-estate

The Sovereign

The assets managed by The Crown Estate are not the property of the Government, nor are they part of the Sovereign's private estate. The assets form part of the hereditary possessions of the Sovereign in right of the Crown; in other words lands owned by the Crown corporately.

Since the first settlement for Crown Lands in 1760, the Sovereign has had no role in managing The Crown Estate, having surrendered the assets to the management of Parliament. However, The Crown Estate manages on behalf of the Crown, and the Sovereign is an important stakeholder as regards good constitutional management and the standards maintained by The Crown Estate in the undertaking of its business. Indeed, as provided for in the Crown Estate Act 1961, this Annual Report is addressed to Her Majesty the Queen, as referenced on the contents page.

Our approach to engagement

An open and transparent relationship with our constitutional stakeholders and our wider stakeholders is an important part of our governance, building trust and excellence in our delivery.

The Treasury

The Crown Estate meets regularly with the Treasury to discuss the delivery of The Crown Estate's mandate and also engages with the Minister responsible for The Crown Estate.

The Sovereign

The Chief Executive and Chairman meet with Her Majesty the Queen once each year to report on the performance of The Crown Estate.

Our customers

We work with our customers every day, but also engage by convening industry events and providing independent routes for feedback and complaints.

Our people

We engage through many channels, providing a voice for our staff that covers everything from all-staff town-hall sessions to anonymous surveying, and a whistleblowing hotline.

Statutory bodies

We foster open and transparent relationships with statutory bodies, from the Marine Management Organisation to local authorities and central Government.

Communities

Our places serve a broad range of communities from local residents and businesses to The Wildlife Trusts, marine interest groups and heritage groups. We engage with those communities to understand the issues that matter to them and how we can shape our work to deliver better outcomes for everyone.

Our suppliers

From cross-organisation collaboration within panel arrangements to transparent feedback on arm's-length transactional activity, we are striving to create lasting partnerships with our suppliers.

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Our governance structure

The Crown Estate's governance structure seeks to align with our long-term strategic approach, taking a risk-weighted and proportionate approach to delegation and underpinned by a clear division of responsibilities and accountabilities.

Board Committees

Delivering focus and challenge to our remuneration, senior succession planning and recruitment; and examining and challenging our processes, risk management and assurance.

Read more on pages 70-78

The Board

Setting strategy, answering our most significant corporate questions and ensuring The Crown Estate is run to the very highest standards.

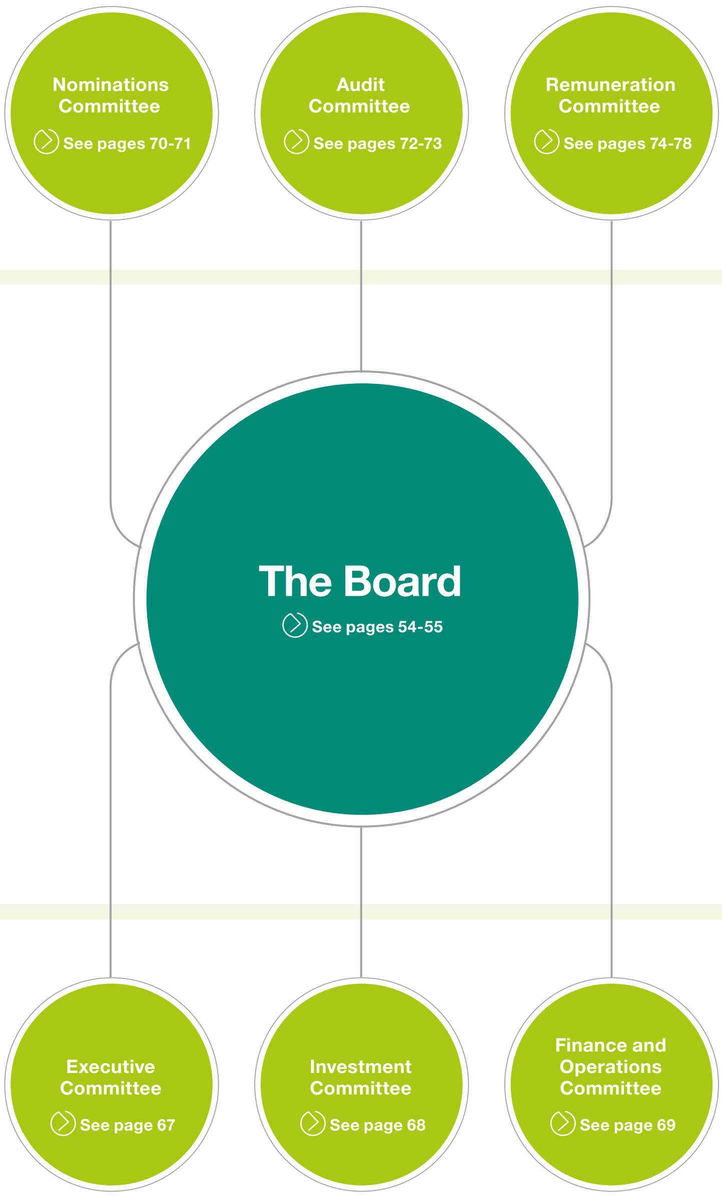
- Chairman
- Senior Independent Board Member
- Independent Non-Executive Board Members
- Executive Board Members
- Non-Executive Board Counsellors

Read more on pages 54-63

Executive Committees

Implementing the strategies set by the Board, making decisions with fully integrated checks and balances, and driving our performance.

Read more on pages 64-69



Board roles*

Chairman
The Chairman is responsible for chairing the Board and overseeing the official business of The Crown Estate; ensuring its effective operation; and keeping under review the general progress and long-term development of The Crown Estate.

Senior Independent Board Member
In addition to the role of Non-Executive Board Member, the Senior Independent Board Member role includes evaluating the performance of the Chairman, representing the Board in Board Member recruitment, acting as a check and balance to the Chairman, and acting as an intermediary for other Board Members.

Independent Non-Executive Board Members
The role of the Independent Non-Executive Board Members is to bring exemplary skills and experience to the Board. This ensures an adequate balance of skills is available to The Crown Estate in order to fulfil our strategic objectives in compliance with our constitution.

Executive Board Members
The Chief Executive and Chief Financial Officer are the Executive Board Members and they discharge the role of Board Member alongside their executive duties.

Non-Executive Board Counsellors
The role of the Non-Executive Board Counsellors is to assist the Board by supplementing the collective skills, expertise and knowledge of the Board Members, to inform Board decision-making.

General Counsel and Company Secretary
The General Counsel and Company Secretary acts as legal and compliance adviser to all Board Members, supports the Chairman in the implementation of Board evaluation and supports the Senior Independent Board Member in the Chairman's evaluation.

*All Board Member appointments are documented in a formal contractual appointment, which supplements the Royal Warrant awarded to Board Members by Her Majesty the Queen. The appointment includes the detailed duties of a Board Member and provides an indemnity for personal civil liability arising from the discharge of those duties, provided that the Board Member has acted honestly, reasonably and in good faith.

The independence of the Board

It is an essential part of our approach to governance that the Board is able to demonstrate a suitable level of independence. To support this, we review annually the independence of each of our Non-Executive Board Members against the criteria for independence as now set out in Provision 10 of the 2018 UK Corporate Governance Code. With regard to Provision 7 our formal declarations of interest processes confirm that none of the Non-Executive Board Members has (to his or her knowledge) any conflict of interest which has not been disclosed to the Board, nor any connection through employment, business or personal relationships that might lead to an erosion of independence. A full list of declared interests can be found on The Crown Estate's website: thecrownestate.co.uk/declaration-of-interests

Delegation

In Board meetings in September 2018, December 2018 and March 2019, the Board refined or restated all of the financial and non-financial delegations at The Crown Estate. That work, undertaken in connection with our wider terms of reference review, has set clear delegations for the business, formulated on a risk-weighted basis in support of our strategy and resilience. Key delegations are reported on the individual committee pages.

How we keep the Board informed

Our Board and committee terms of reference make it clear that such time and resource as is required for the proper discharge of duties and delegated duties will be made available; including for training, independent advice and contributions from senior Crown Estate staff and subject matter experts. We also have an ongoing programme of Board visits across our assets, as described in more detail on page 57.

In addition, the Board regularly receives input from external thought leaders and commentators as part of the Board calendar. In 2018/19 this covered matters such as the rise of technology, disruption in retail and customer value creation.

Board activity and administration

The Board had seven scheduled meetings during the year, spread evenly across the calendar. In addition, the Board undertakes a special strategy session over two days in October every year, where long-term strategy is examined, strategic direction is set and detailed discussions are undertaken on strategic risk and The Crown Estate's material issues.

Board meetings are scheduled for three hours, and are augmented by time spent 'in camera' for Board Members and also for Independent Non-Executive Board Members only (both with and without the Chairman).

All Board and committee meetings are pre-scheduled on a rolling calendar year's notice and information relating to each individual meeting is provided at least one week ahead of the meeting itself to allow proper consideration.

Administration of the Board is the responsibility of the Company Secretary, Rob Booth, who operates the key procedures and policies of the Board, maintains our corporate records and the terms of reference for our Board and Committees.

Attendance of the Board during the 2018/19 financial year

Board Member/Counsellor	Board	Strategy session
Robin Budenberg	7/7	1/1
Alison Nimmo	7/7	1/1
Ian Marcus	7/7	1/1
Kate Bowyer	7/7	1/1
James Darkins	7/7	1/1
Paula Hay-Plumb	7/7	1/1
Lynda Shillaw	7/7	1/1
Dipesh Shah[1]	5/5	1/1
Gareth Baird[2]	7/7	1/1
Peter Madden[2]	7/7	1/1

1 Retired from the Board on 31 December 2018.
2 Board Counsellor.

Our commitment to continuous improvement

Following on from our externally facilitated Board evaluation in the 2017/18 financial year, we have continued our rigorous assessment of Board effectiveness in 2018/19.

Our Board evaluation process

This year we have evaluated the performance of the Board and its committees, together with the effectiveness of the Chairman and each individual Board Member and Board Counsellor. The process is administered by the Company Secretary, with the Chairman's appraisal process being led by the Senior Independent Board Member.

June 2018

Evaluation timetable agreed between the Company Secretary, Chairman and Senior Independent Board Member and evaluation materials reviewed against the expected provisions of the 2018 Corporate Governance Code.

August 2018

Effectiveness assessment questionnaires completed by all Board Members and Board Counsellors and views taken from the Executive Committee.

September 2018

Chairman's effectiveness review undertaken by the Board, led by the Senior Independent Board Member.

Autumn 2018

Calibration of effectiveness assessment undertaken and performance feedback sessions delivered to all Board Members and Board Counsellors, including feedback to the Chairman led by the Senior Independent Board Member.

December 2018

Special session of the Board to review effectiveness, undertake objective setting and discuss progress against the Board's previous objectives.

Evaluation scoring

Board focus
- **2018/19**
- 2016/17

Board composition
- **2018/19**
- 2016/17

Risk management
- **2018/19**
- 2016/17

Collaboration and culture
- **2018/19**
- 2016/17

Conflicts of interest
- **2018/19**
- 2016/17

Resource and support (new)
- **2018/19**

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Scoring mechanism

The effectiveness ratings for the Board are calculated from questionnaires filled out by all Board Members and Board Counsellors as part of the effectiveness review. These are combined with free text feedback to help highlight areas for future improvement. In 2017/18 no effectiveness ratings were calculated as the Board undertook an externally facilitated process.

- Highly effective – 80-100%
- Effective – 60-80%
- Not effective – less than 60%

Findings	Actions/Objectives	Progress made in 2018/19
– 2017/18 objectives delivered satisfactorily. – Board wishes to get closer to strategy, purpose and culture.	– Board to get closer to the development of the vision for the business. – Board to focus on improved financial modelling for the business. – Board to focus on future resourcing within the business in support of the Corporate Strategy.	– Thematic Board meetings set and delivered in alignment with Board focus. – Terms of reference refreshed to align with Board focus.
– 2017/18 objectives delivered satisfactorily. – Board not fully satisfied with mix of skills, experience and diversity on the Board.	– New appointments to drive greater diversity onto the Board. – New appointments to ensure in particular an increase in the Board's skills and experience around innovation, digital business and customer value creation. – Board to continue to draw on external perspectives and inputs.	– Diversity reconfirmed as a core requirement to future Board appointments. – Board skills matrix enhanced and implemented. – External speaker programme delivered.
– 2017/18 objectives delivered satisfactorily. – Board still sees potential for improvement in our approach to risk management.	– Board to continue to push for improvement in our risk management approach. – Board to ensure clear ongoing messaging on the need to take measured risk to promote innovation within the business.	– Risk governance refined and restated. – Risk appetite further clarified. – Assurance framework assessed for maturity. – Risk deep dives undertaken.
– 2017/18 objectives delivered satisfactorily. – Board sees room for improvement in engagement with the business and the executive.	– Board to position itself to support Chief Executive succession. – Board engagement to be strengthened and people-related reporting to be improved.	– Board engagement refreshed and new initiatives implemented.
– 2017/18 objectives delivered satisfactorily. – Board supportive of continuous improvement via our declarations of interest and wider governance processes.	– Further strengthen the quality and regularity of processes and improve supporting materials.	– Supporting processes all discharged over the financial year.
– Board feels well supported as regards time, resource and administration. – Quality of Board papers and materials has substantially improved.	– Continuous improvement in delivery of secretariat support and clarity and availability of materials.	– Digital support to Board meetings and administration now fully implemented. – Board cycles and thematic meetings now clear and set. – Terms of reference refined to clarify resource and support requirements.

Our senior executive team

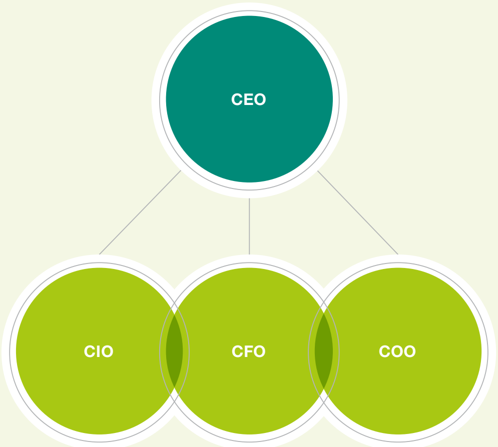
Shaping our business for the future

Over the last three years we have sought consistently to streamline our approach to strategic delivery within The Crown Estate. That has seen us move from distinct strategies to a single and uniting Corporate Strategy for the future of our business. In support of that we have taken a series of steps to refine our governance and structure for and around our senior executive team.

This has involved:

- the redefinition and clarification of financial and non-financial delegations for our senior executives and their respective teams
- the creation of a dedicated strategy team, reporting to our Chief Investment Officer
- the reforming of our structure around valuation and performance measurement
- the implementation of a series of strategic workstreams to enable our future offering
- reshaping teams toward the goal of putting the customer at the heart of our approach.

People



Executive Committee diversity

As our senior management team, the diversity of our Executive Committee (including our Company Secretary and General Counsel) sets a tone from the top for our commitment to diversity throughout The Crown Estate:

Gender

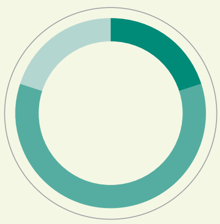
Female

60%

Male

40%

Tenure in role



1-3 years	20%
3-5 years	60%
5 years +	20%

Dame Alison Nimmo DBE

Chief Executive

Roles and responsibilities

Alison is the Chief Executive of The Crown Estate and is accountable to the Board for the delivery of the Corporate Strategy. Alison chairs our Executive Committee, Investment Committee and Finance and Operations Committee.

Read more about Alison on page 54

Kate Bowyer

Chief Financial Officer

Roles and responsibilities

As Chief Financial Officer, Kate is responsible for leading the finance and business technology teams at The Crown Estate. As a member of the Executive Committee, Kate shares a collective responsibility for the delivery of the Corporate Strategy on behalf of the Board and also sits as a member of our Investment Committee and our Finance and Operations Committee.

Read more about Kate on page 55

Paul Clark

Chief Investment Officer

Roles and responsibilities

As Chief Investment Officer, Paul is responsible for leading The Crown Estate's portfolio management, investment, strategy and development functions. As a member of the Executive Committee, Paul shares a collective responsibility for the delivery of the Corporate Strategy on behalf of the Board and also sits as a member of our Investment Committee. Prior to joining The Crown Estate, Paul was responsible for the Church Commissioners' £1.7 billion property investment portfolio. Beyond his Chief Investment Officer role at The Crown Estate, Paul is also a Non-Executive Director of the Hermes Property Unit Trust and was until recently a director of Ronson Capital Partners.

Judith Everett

Chief Operating Officer

Roles and responsibilities

As Chief Operating Officer, Judith is a member of the Executive Committee and leads The Crown Estate's activity on people, customer, brand, communication, engagement, responsible business and operational resilience. As a member of the Executive Committee, Judith shares a collective responsibility for the delivery of the Corporate Strategy on behalf of the Board and also sits as a member of our Finance and Operations Committee. Judith has previously led on communication and engagement activity internationally and across a range of sectors, having worked with Royal Dutch Shell, Threadneedle Investments and AstraZeneca. A graduate of both Aberdeen and Edinburgh universities where she read International Relations and Business, Judith sits as a member of the CBI London Committee.

Rob Booth

General Counsel and Company Secretary

Roles and responsibilities

As General Counsel, Rob has responsibility for all of the legal affairs of The Crown Estate and acts as advisor to our Board and Executive Committee. As Company Secretary, Rob is responsible for delivering and continuously improving The Crown Estate's corporate governance. Rob is also The Crown Estate's strategic lead on Knowledge Management, Privacy and Information Security. Rob is a qualified solicitor, who joined The Crown Estate in 2012 from City law firm Herbert Smith Freehills, where he specialised in commercial property and infrastructure projects.

Read more about Rob's role on page 61

Left to right
Paul Clark, Judith Everett, Kate Bowyer,
Alison Nimmo, Rob Booth.

The Accounting Officer's statement

The Accounting Officer

The Treasury has appointed the Chief Executive (the Second Commissioner) as the Accounting Officer for The Crown Estate. Her responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in 'Managing Public Money'. With regard to this Annual Report, the Accounting Officer takes personal responsibility for the Annual Report itself and for the judgements required for determining that it is fair, balanced and understandable.

The Chief Executive is supported in discharging her responsibilities as Accounting Officer by the Board of The Crown Estate. The Board is responsible for ensuring that The Crown Estate has in place a system of controls, financial and otherwise; and under section 2(5) of the Crown Estate Act 1961 is required to prepare a statement of accounts in the form and on the basis determined by the Treasury. The financial statements are prepared on an accruals basis and must give a true and fair view of The Crown Estate's revenue profit and capital profit, the state of affairs at the financial year end and of income and expenditure and cash flows for the financial year in question.

In preparing the accounts the Board is required to:

- observe the accounts directions issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis.

The Accounting Officer's statement

This Annual Report, together with the material issues we have identified, sets out the principal issues and opportunities facing the business and the processes in place to manage these.

In making my statement as Accounting Officer, in line with 'Managing Public Money', it is my judgement that the Board has handled these issues successfully and that they have been supported by an appropriate governance framework.

As a matter of note, this year we undertook a detailed assessment of our procurement policies and processes; the assurances in place to support those policies and processes; and our compliance performance. We identified a number of areas for improvement and have since implemented an improvement plan to ensure that we meet the highest practical standards in this area. Our assessment has provided assurance that there has not been any misapplication of public funds or any misstatement in the accounting records.

So far as I am aware, I confirm that there is no relevant audit information of which the auditors are unaware. I have also taken all steps necessary in order to make myself aware of all relevant information and have established that the auditor is aware of that information.

I am confident that The Crown Estate will continue to operate as a viable, successful and well-governed business going forward. There will be inevitable challenges that all businesses will face in the medium term. I believe the governance arrangements we have in place are robust and sufficient to manage those challenges. I envisage that some of the priorities going forward that the Board will need to consider will include:

- the acceleration of change in the commercial property industry, as traditional property models are disrupted and are replaced by a curated offer of space, amenity and services
- the rapidly evolving demographics of our customers, stakeholders and staff
- the challenges presented by climate change
- the ongoing challenges presented in the areas of information security, privacy, supply chain management and responsible business practice.

Dame Alison Nimmo DBE
Chief Executive
10 June 2019

The Executive Committee report

Membership and attendance 2018/19 financial year

Alison Nimmo (Chair)	Kate Bowyer
12/12	12/12
Paul Clark	**Judith Everett**
11/12	12/12

Overview

Meeting 12 times this year, our Executive Committee delivers the strategic direction of our business for our Board. It brings together all aspects of what we do and seeks to embed customer value creation in our decision-making. The Executive Committee also analyses material issues and strategic risk and opportunities to generate and recommend the Corporate Strategy, and ensures that business plans are aligned to our strategic objectives. It also reports on the delivery of the Corporate Strategy to the Board.

This year

2018/19 was a strategically important year for the Executive Committee as we sought to develop a single cohesive strategy for our business, integrating customer value creation and seeking a manifest shift in our evidence-based decision-making.

The Executive Committee considered all matters within its terms of reference, including:

- the Corporate Strategy of The Crown Estate
- the business plans and budgets for 2019/20 and our three-year time horizon
- strategic risk and material issues
- The Crown Estate's financial and non-financial performance
- information security, privacy and procurement
- health and safety and sustainability
- people, culture, customer, governance and major corporate projects.

The key duties of the Executive Committee are:

- to develop for onward transmission the Corporate Strategy for review and approval by the Board on an annual basis
- to receive and review reports from the business on financial and non-financial performance on a quarterly basis, to ensure that delivery of the Corporate Strategy is on target; and in turn report on that delivery to the Board
- to receive and review reports from the Risk Group and to consider strategic risk and opportunities and material issues, reporting to the Board and Audit Committee.

Alignment with the 2018 UK Corporate Governance Code

The Executive Committee acts as a central pillar of our strategic decision-making and reporting, with much of the operational activity of The Crown Estate being discussed and regular onward reporting to the Board. Following our terms of reference review, the Executive Committee will be focusing on the following activities to enhance its role in our corporate governance architecture:

- sourcing and presenting improved management information in support of our People Strategy and culture work
- reviewing our ways of working, policies and supporting materials to ensure improved traction between our corporate governance and day-to-day operation
- overseeing the implementation of new and improved programme and project management methodologies within the business.

"Our two defining themes this year have been our customers and our people."

Alison Nimmo
Chief Executive

The Investment Committee report

Membership and attendance 2018/19 financial year

Alison Nimmo (Chair)
10/10

Kate Bowyer
10/10

Paul Clark
9/10

Overview

Meeting ten times this year, our Investment Committee regulates the investment, development and asset management functions of The Crown Estate's commercial activity and in so doing supports the delivery of the Corporate Strategy.

This year

2018/19 has seen a full agenda for the Investment Committee with transactional activity across The Crown Estate's portfolios; a number of significant investment and development decisions; and approvals for our pilot flexible office space at One Heddon Street. We have also continued to strengthen our reporting and retrospective analysis this year, with regular management information being presented to the Investment Committee in support of decision-making.

The Investment Committee considered all matters within its terms of reference, including:

- approving major sales, purchases and developments
- reports on joint venture management and compliance
- financial and portfolio performance reporting
- updates on ongoing development activity
- reviews of strategic investment.

The key duties of the Investment Committee are:

- to decide upon investments, joint ventures and capital expenditure within its delegated authority
- to consider investments, joint ventures and capital expenditure beyond its delegated authority for recommendation to the Board
- to receive and review reports on the status of developments, asset management initiatives and strategic joint ventures
- to identify and measure the key drivers to performance.

Alignment with the 2018 UK Corporate Governance Code

As part of our terms of reference review, a strategic overhaul of our financial and non-financial delegated authorities was undertaken. As a result, the financial delegated authorities of the Investment Committee were recalibrated to ensure we have even clearer delegations that are aligned to our business processes. The key changes to those delegations were:

- new definitions for the delegations for capital trading and leasing transactions
- the creation of new capital and revenue related delegations for non-property-related expenditure, such as advisory fees, taxes and portfolio initiatives. A delegation of £10 million was made by the Board for this purpose
- the creation of a new project-related delegation for our development activity, providing a separate risk-weighted delegation for spending in this area. Delegations of £50 million (for commercial property interests) and £20 million (for our infrastructure, coastal and rural interests) were made by the Board for this purpose.

"We are continually pushing to put customer value creation at the centre of our investment and asset management decisions."

Paul Clark
Chief Investment Officer

The Finance and Operations Committee report

Membership and attendance 2018/19 financial year

Alison Nimmo (Chair)
4/4

Kate Bowyer
4/4

Judith Everett
4/4

Overview

Meeting four times this year, our Finance and Operations Committee performs three principal functions. It ensures The Crown Estate is functionally supported in its delivery of the Corporate Strategy. It ensures the production of accurate and meaningful reports and management information to all levels of the business and it ensures we have sound processes for business planning and budgeting, while also challenging how we operate and procure, to ensure effective business delivery.

This year

2018/19 has seen the Finance and Operations Committee broaden and deepen its work on efficiency and consistency of delivery. In particular we have started to examine how we improve and implement further controls around spending to ensure we optimise our operations. The Finance and Operations Committee also considered the implementation of a number of new corporate systems, in support of our strategic roll-out of improved tools for the business.

The Finance and Operations Committee considered all matters within its terms of reference, including:

- reports on wellbeing, workplace and health and safety
- reports on human resources activity
- reports on procurement and spending efficiency
- financial and treasury reports
- reports on systems, security and business technology.

The key duties of the Finance and Operations Committee are:

- to review reports from across the operations functions
- to review key financial management information
- to monitor compliance in areas such as health and safety, procurement and budgets
- to consider IT projects with a capital spend of up to £5 million (other than customer facing IT).

Alignment with the 2018 UK Corporate Governance Code

The work of the Finance and Operations Committee is important in ensuring that The Crown Estate is properly supported to deliver our purpose and strategy. Of particular note following our review of terms of reference is the Finance and Operations Committee's role in overseeing a series of functions that provide leading and lagging indicators on culture and the initiatives that will deliver our People Strategy. A combination of wellbeing reporting, health and safety performance and our human resources activity reporting across recruitment, absence, leavers and diversity, all play a fundamental part in our assessment and monitoring of The Crown Estate's culture. It also provides an assurance and validation layer as part of the escalation of culture-related information to the Board.

"Our principal focus is to ensure that The Crown Estate is functionally and financially supported, helping us to realise the full potential of our assets."

Judith Everett
Chief Operating Officer

The Nominations Committee report

Membership and attendance 2018/19*

Robin Budenberg (Chair)
2/2

Ian Marcus
2/2

Paula Hay-Plumb
2/2

*The Nominations Committee is supported by our Head of Human Resources, who also acts as secretary for Nominations Committee meetings.

Overview

Meeting twice this year, the Nominations Committee forms an integral part of our overall governance structure, ensuring the timely recruitment of the best candidates to satisfy our succession requirements, both at Board level and within our senior executive roles.

This year

In 2018/19, the Nominations Committee considered all matters within its terms of reference, including:

- the membership of the Board and its Committees
- future Board recruitment and reappointments
- the leadership of the Executive Committee
- Board and senior executive succession planning.

In particular, the Committee considered:

- the reappointment of Paula Hay-Plumb as a Non-Executive Board Member
- the appointment of The Crown Estate's new Chief Executive
- the appointment of a new Non-Executive Board Member
- the reappointment of Gareth Baird as a Board Counsellor.

More detail of our approach to recruitment can be found on the next page.

In addition, the Committee examined the short- to medium-term skills and expertise mix, recognising that a number of Board Members are approaching the end of their tenure on the Board and that the lead time for new appointments is significant.

The key duties of the Nominations Committee are:

- to identify the skills, experience and diversity required for progressive Board succession
- to instigate the process of Board appointments and to oversee the selection process for Board Members and Board Counsellors
- to approve the appointment of the Senior Independent Board Member
- to support senior executive succession planning by examining the skills, experience and diversity required within the executive
- to oversee the recruitment process for the most senior executives at The Crown Estate.

Alignment with the 2018 UK Corporate Governance Code

As part of our review of the terms of reference for the Board and its committees, the terms of reference for the Nominations Committee were refined to ensure compliance and best practice. Particular focus was paid to ensuring that the Nominations Committee has a clear duty to implement inclusive processes for Board recruitment; and that there are clear and rigorous processes in place to ensure Board effectiveness is maximised.

"The resilience of The Crown Estate's business model is underpinned by our commitment to diverse recruitment and strategic succession planning."

Robin Budenberg
Chairman and Chair of the Nominations Committee

The foundation of our appointments

All of our appointments are supported by analysis based on the skills, experience and diversity of our existing Board combined with a strategic projection of future skills requirements. Following the recommendations of our independently facilitated Board evaluation in 2017, the Nominations Committee significantly enhanced its skills matrix, using a combination of self-assessment and calibration to measure the combined and desired skills of the Board in the following 11 key areas:

- leadership
- strategy development and delivery
- people, culture and organisational behaviour
- governance, assurance and organisational design
- finance and accounting
- strategic risk and risk management
- property, place and amenity
- customer insight and customer service
- innovation and product development
- digital business and technology
- strategic partnerships.

Non-Executive Board appointments

An open and fair approach

In accordance with the Public Appointments Order in Council 2016, the appointment process for Independent Non-Executive Board Members follows the Government's Governance Code for Public Appointments (December 2016), which came into force on 1 January 2017, as administered by the Office of the Commissioner of Public Appointments. The Principles of Public Appointments, with which our processes comply, include:

- integrity
- merit
- openness
- diversity
- assurance
- fairness.

Our appointment processes and criteria for appointment are all developed to ensure that we act in compliance with these principles and the broader provisions of the Government's Governance Code for Public Appointments (December 2016).

By way of example, all of our Independent Non-Executive Board Member appointments are advertised online and in at least one national newspaper (in 2018/19: The Times and/or The Sunday Times), to ensure that our appointments are open to all.

A panel approach

All of our appointments are undertaken by a diverse panel, including representatives from the Treasury, The Crown Estate and an independent member. In the case of the Chairman, this also includes a representative of the Office of the Commissioner of Public Appointments. Recommendations for appointment are made by the Treasury to the Prime Minister and Her Majesty the Queen.

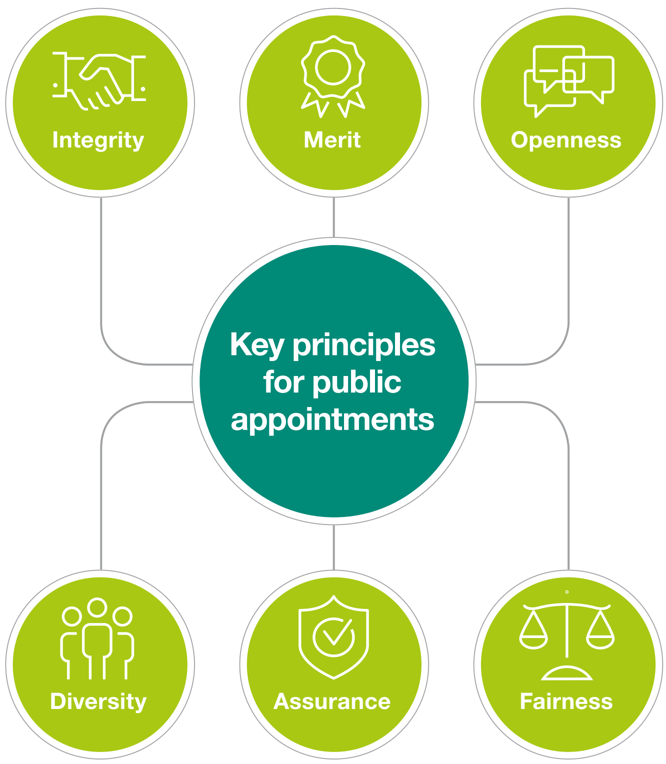
Executive Board appointments

Our Executive Board Member appointments (our Chief Executive and Chief Financial Officer are both Executive Board Members) are not strictly subject to the requirements of the Public Appointments Order in Council 2016. However, by agreement with the Treasury, The Crown Estate ensures that the spirit and principles of the Government's Governance Code for Public Appointments (December 2016) is followed for the appointment of Executive Board Members.

Use of executive search agents

The Crown Estate uses executive search agents to assist with the management and administration of our appointment processes. In the past year, we have used Russell Reynolds Associates for both our Executive and Non-Executive Board Member appointments.

We can confirm that Russell Reynolds Associates has no material connection with The Crown Estate or The Crown Estate's individual Board Members.



The Audit Committee report

Attendance of members of the Audit Committee during 2018/19

Paula Hay-Plumb (Chair) 5/5	**James Darkins** 5/5
Lynda Shillaw[1] 5/5	**Ian Marcus[2]** 1/1

1 Joined as a member of the Audit Committee in July 2018 and attended the June 2018 meeting as an invitee.
2 Retired as a member of the Audit Committee in June 2018.

The members during the year have each served for the following periods of time:

- Paula Hay-Plumb – 4 years (as Chair)
- James Darkins – 3 years
- Lynda Shillaw – 1 year
- Ian Marcus – 7 years.

“The Audit Committee works closely with management to support continuous improvement in governance, risk management and internal control to enable our corporate objectives to be met.”

Paula Hay-Plumb
Chair of the Audit Committee

Overview

This year, in addition to its four regular meetings, the Audit Committee added a fifth meeting to its calendar, to enable it to focus specifically on our approach to supply chain management.

The Committee plays a crucial role in oversight and scrutiny of our internal control environment, financial reporting and approach to risk. It provides a verbal update to the Board after each meeting, and an annual report demonstrating the discharge of its activities during the year.

Composition of the Audit Committee

The composition of the Audit Committee was updated in June 2018 following the transition and handover from Ian Marcus to Lynda Shillaw. Ian Marcus retired from the Audit Committee after seven years of valuable contributions. Lynda Shillaw brings with her a wealth of experience from managing a range of different property estates.

Between its members the Audit Committee benefits from skills and experience gained from significant exposure to:

- accountancy and finance (public and private sector)
- Audit Committee best practice
- investment management and investment banking
- property and commercial operation
- retail, farmland and infrastructure experience.

The members of the Committee possess the financial knowledge and commercial experience to meet the needs of the Board and the business; and to satisfy the requirements of the 2018 UK Corporate Governance Code. Further credentials of the members are set out on pages 54-55.

The key duties of the Audit Committee are:

- to support the Board in fulfilling its oversight responsibilities on financial reporting, systems of internal control and risk management processes
- to provide oversight of activity performed by internal audit and external audit, including assurance over the valuation process
- to review the integrity of the Annual Report and Accounts prior to submission to the Board
- to review the effectiveness of the risk management framework.

Key areas of Audit Committee activity

The Audit Committee has performed its principal duties during the year in line with its remit. The allocation of time across the key areas of Audit Committee activity has been set out below:

27%	Governance and risk management
24%	Internal audit
24%	Financial reporting and related matters
12%	External audit
9%	Other (e.g. litigation)
4%	Property valuation and performance

Alignment with the 2018 UK Corporate Governance Code

The Audit Committee is committed to discharging its key role with transparency and objectivity. In support of this, in addition to the members, the following groups are also invited to attend the Audit Committee:

- The Crown Estate: Chief Executive, Chief Financial Officer, Chief Investment Officer, General Counsel and Company Secretary, Head of Internal Audit, Group Financial Controller and otherwise as specified by the Committee
- National Audit Office (NAO): representatives of our external audit team
- PwC: representatives of our co-sourced internal audit partner.

As our external auditor, the NAO are given complete access to all financial and other information and the Committee meets (without management present) with the NAO and (separately) with the Head of Internal Audit. In addition, the Audit Committee Chair meets with the Head of Internal Audit on a regular basis.

Reporting and assurances

During the year, the Committee reviewed and obtained reports and assurances from a number of sources, to enable it to perform its duties. The reports included updates in relation to key matters of focus. These covered insurance, and our approach to procurement and supply chain management. The other key sources of assurance included:

- *Management update on accounting matters, disclosures and judgements in relation to the financial statements.* The Committee received regular reports from the CFO outlining the proposed approach for treatment of material events, new accounting standards and alignment with the 2018 UK Corporate Governance Code. This included providing the Committee with assurance on key processes underlying the Viability Statement, Going Concern and assessment of the Annual Report and Accounts as fair, balanced and understandable.
- *Management's disclosure of the results of the year end valuations.* The results of the year end valuations, with particular regard to the underlying processes. This included the basis for valuation across different elements of the portfolio, and processes to preserve independence and manage conflicts in relation to the valuers.
- *Management's summary of assurance.* The Committee reviewed the continuing development of management's assurance framework. The framework provided a good degree of comfort over management of key business areas as well as highlighting gaps in assurance where corrective action can be taken. The assurance framework was supplemented by management's self-assessment of internal control maturity and its action plan. Together with the framework this was used by the Committee to focus Internal Audit and reporting activity.
- *Management reports on processes to support effective management of key risks.* The Committee focused on risk through review of the key corporate risks escalated by management via the Risk Group, and a separate dedicated review of risk areas through the use of 'risk spotlights'. The 'risk spotlights' selected by the Committee for 2018/19 were procurement/supply chain risk and insurance. These were presented in July, with a subsequent additional Committee meeting taking place in February 2019 to further evaluate assurance around procurement.
- *Independent assurances on internal control.* The Committee receives independent assurance through the work of Internal Audit at each meeting. It reviews and endorses the annual plan of internal audit activity prepared by the Head of Internal Audit, and reviews the results of that work together with management's progress in strengthening and enhancing internal controls where improvement opportunities have been identified. The Committee works closely with the Head of Internal Audit who has unfettered access to the business. It endorsed the Internal Audit Charter which sets out Internal Audit's roles and responsibilities, including its independence.

Fraud and whistleblowing

The Committee takes its role of oversight in the prevention and detection of fraud very seriously. Suspected frauds can be reported through a dedicated whistleblowing hotline and email inbox, overseen by the Head of Internal Audit. This is available to customers, suppliers and members of the public as well as staff. If suspected fraud involves a member of staff at Director level or above, it can be reported to the Chair of the Audit Committee. The Committee was satisfied that a robust framework is in place. It also receives a positive confirmation on any investigations and that no fraud or bribery has been identified at each meeting.

External auditor performance

The NAO's appointment as external auditor is mandated by the Crown Estate Act 1961. For the 2017/18 audit year, the Audit Committee undertook a structured assessment process of the NAO's performance. That improved process enabled formal feedback to be provided under an agreed performance framework.

Significant areas of judgement[3]

The Committee reviewed the Annual Report and Accounts, with particular attention to accounting policies and areas of judgement. The primary judgements considered related to the valuation of The Crown Estate's assets, given its materiality to the balance sheet. The Committee debated the valuation process, methodology and assumptions. The Committee was satisfied that the valuation was professionally conducted, resulting in an effective valuation.

Fair, balanced and understandable[3]

The Committee considered whether the process followed in the production of the 2018/19 Annual Report and Accounts supported its assessment as being 'fair, balanced and understandable' in accordance with the 2018 UK Corporate Governance Code. The Committee was satisfied that the process followed was appropriate and endorsed the presentation of the Annual Report and Accounts to the Board as being 'fair, balanced and understandable'.[4]

3 Activity undertaken at the June 2019 Audit Committee meeting.
4 Supported by external advice the Committee also endorsed the presentation of the Annual Report and Accounts to the Board as being in alignment with the IIRC Framework.

June 2018

- Review of CFO report (inc. updates on accounting, viability and internal control)
- Review of internal audit programme and results (inc. annual opinion)
- Review of management assurances on internal control
- Review of matters of substance to support the Annual Report and Accounts (inc. management representations)
- Review of governance and assurance to support annual valuation of The Crown Estate 2017/18
- Review of external audit completion report (inc. management letter) on the 2017/18 financial statement audit
- Approval of Annual Report and Accounts 2017/18
- Review of assurances over Integrated Reporting and Non-Financial Metrics

July 2018

- Review of CFO report (inc. updates on accounting and internal control)
- Review of internal audit programme and results
- Risk spotlights
- Review of information security update
- Review of the Assurance Framework

November 2018

- Review of CFO report (inc. updates on accounting and internal control)
- Review of internal audit programme and results
- Review of the internal audit forward plan for 2018/19
- Review of governance update from Joint Venture Oversight Group
- Review of litigation update
- Review of external audit effectiveness and reappointment

February 2019

- Review of procurement and procurement improvement

March 2019

- Review of CFO report (inc. updates on accounting, viability and internal control)
- Review of internal audit programme and results
- Endorse the internal audit programme for 2019/20
- Review of the Assurance Framework
- Note and approve the Internal Audit Charter
- Review external audit's progress report on the 2018/19 financial statement audit

Remuneration report

Attendance of members of the Remuneration Committee during 2018/19

Member	Attendance
Ian Marcus (Chair)[1]	3/3
James Darkins	3/3
Peter Madden[2]	3/3
Dipesh Shah OBE[3]	2/2

1 Ian Marcus attended one meeting by telephone and nominated James Darkins to act as Chair for that meeting.
2 A maximum of one Board Counsellor may stand as a member of the Remuneration Committee.
3 Retired from the Board on 31 December 2018.

Overview

Meeting three times this year, the Remuneration Committee has responsibility for overseeing a remuneration policy that supports the delivery of our long-term strategic objectives. In particular, our commitment to being a high-performance business, enabling The Crown Estate to attract and retain the talented, professional and experienced people that we need.

The Committee is focused on ensuring the right balance between rewarding short-term financial success and recognising delivery of long-term performance, while staying true to The Crown Estate's purpose of creating brilliant places through conscious commercialism. The Committee works within the parameters of a Treasury approved executive reward strategy, which was implemented in April 2016.

Membership

The Remuneration Committee is chaired by Ian Marcus, who has acted as chair of the Committee for the last five years. The other members of the Committee are Dipesh Shah (until 31 December 2018), James Darkins and Peter Madden. See page 60 to see how the Remuneration Committee fits in to our Governance structure.

Governance and role

This report is prepared in accordance with the requirements set out in the 2018 UK Corporate Governance Code and the Government Financial Reporting Manual. The Crown Estate is not required to comply with the 2018 UK Corporate Governance Code, however we supplement our statutory requirements by seeking to align with the Code where consistent with our constitution. We are pleased to note that our established approach complies with many of the new requirements of the Code because our remit extends to pay policy for all employees, and is not limited to executives.

The key duties of the Remuneration Committee are:

- to ensure that independent judgement and discretion is applied to remuneration outcomes, reflecting company and individual performance
- to ensure that the remuneration policies of The Crown Estate are clear, simple, predictable and proportionate; and deliver outcomes that are within The Crown Estate's risk appetite and in alignment with The Crown Estate's culture and values
- to ensure that the remuneration policies of The Crown Estate are delivered in compliance with our prevailing Treasury framework, and that the framework is regularly reviewed in light of the market
- to maintain an appropriate level of oversight of remuneration across The Crown Estate's staff; and management's compliance with prevailing policies, processes and procedures
- to oversee formal and transparent procedures for the development of The Crown Estate's remuneration policies
- to ensure that the Board is appropriately informed of the committee's findings, activities and performance; through updates from the Chair at Board meetings, the submission of an annual report of activity to the Board and contributing to the governance reporting in the Annual Report and Accounts
- specifically to determine the total individual remuneration packages of senior management, including salary, allowances, bonuses, any long-term incentive payments and pension benefits.

Alignment with the 2018 UK Corporate Governance Code

As part of our review of the terms of reference for the Board and its committees, the terms of reference for the Remuneration Committee were revised to reflect our strategic goals and the requirements of the 2018 UK Corporate Governance Code. Those changes have focused on ensuring that the Remuneration Committee has an active and appropriately deep role in ensuring that The Crown Estate's remuneration policies are properly formulated and applied throughout the business.

> "Our approach to remuneration is designed to support The Crown Estate's strategy and ensures that we promote long-term, sustainable decision-making."
>
> **Ian Marcus**
> Chair of the Remuneration Committee

Remuneration Committee attendance

In addition to the Committee members, the CEO, the Head of Human Resources and the Reward and Operations Manager in a delegated role as Secretary to the Committee also attend meetings.

Other Board Members (for example the Chairman of The Crown Estate or the Chief Financial Officer) may attend on the invitation of the Committee as required. However, no attendee is involved in any decision relating to his or her own remuneration. The professional advisers to the Remuneration Committee are invited to attend as required.

Activities and highlights

During the course of the year the Remuneration Committee considered a number of matters:

- updates from the Chair of The Crown Estate Pension Trustees
- overall distribution of performance measures, salary increase and bonus awards for the entire business
- CEO annual salary review and bonus recommendations from The Crown Estate Chairman, ensuring delivery within the terms of the current agreement between The Crown Estate and the Treasury, which is known as the Treasury Business Case
- the remuneration package for the appointment of a new CEO at a salary of £366,000 in line with the Treasury Business Case, together with The Crown Estate standard benefits and incentive schemes
- executive salary review and bonus recommendations from the CEO
- review of senior management remuneration, focusing on employees with a base salary of £140,000 or more
- an update of the published bonus scheme documentation to ensure consistency and clarity
- gender pay gap data before external and internal publication (see Operations review pages 28-35 for details)
- Long-Term Incentive Plan (LTIP) performance and grants
- regular updates of Corporate Governance trends in general and remuneration developments in particular
- competitive tender and appointment of the Remuneration Committee external advisers.

Remuneration policy and benchmarking

The Crown Estate's remuneration policy seeks to provide sustainable levels of remuneration to attract, retain and motivate high-quality employees, recognising that while we are a public corporation, we compete for talent in a highly commercial environment. Accordingly, for the majority of employees, we aim to pay salaries at around market median and bonus awards determined by reference to the performance of the business and individual contribution.

The Remuneration Committee has adopted a progressive and balanced performance-related pay policy to ensure that an appropriate proportion of the executive remuneration is delivered through performance-related pay, with incentives to outperform targets, which include external benchmarking.

Remuneration for the CEO is set and reviewed by the Committee in line with the Treasury Business Case and for the Executive group is benchmarked by the Committee using research prepared by the Reward and Operations team in conjunction with our external advisers. The research is carried out by benchmarking roles against one or more proprietary pay surveys, which assess a large group of real estate, energy sector and other private sector comparators. We also benchmark to other comparator organisations, such as those with similar government relationships or rural portfolios, as required to ensure robust and reliable data inputs.

The Committee has oversight for the pay and reward policy across the business, with particular focus on the remuneration of senior employees (those with basic pay of £140,000 or more), whose pay is also the subject of benchmarking research prepared by the Reward and Operations team.

The organisation's policy is to compensate leavers within contractual terms for loss of office and/or early termination.

Components of executive remuneration

Executive remuneration is made up of the following components:

- fixed pay, comprising: base pay, flexible benefits allowance (including annual leave converted into cash), pension allowance or contribution to a pension scheme, private healthcare membership or a cash-equivalent payment
- variable pay, comprising: annual bonus and long-term cash incentive plan arrangements.

Principles and policy on annual bonuses

The annual bonus arrangement for the executive is based on the achievement of key business targets supporting our KPIs, with a maximum possible award of 60% or 70% of basic salary in 2018/19 (80% maximum for the CEO). The maximum award is subject to receipt of an outstanding individual performance rating and is conditional on The Crown Estate meeting or exceeding predetermined financial performance targets and behavioural measures. The financial targets are to increase our net revenue profit on a three-year rolling basis at a rate agreed with the Treasury, and to outperform a bespoke total return benchmark, also on a three-year rolling basis.

Executive cash incentive plans

All Executive Committee members (CEO, CIO, COO and CFO from 2017) are participants in the LTIP, introduced in April 2016. This discretionary, non-pensionable, cash plan has a three-year performance period and at the first maturity date under the plan (31 March 2019) achieved a pay out of 89.25% of maximum award for the participants. The maximum opportunity for CEO, CIO and CFO, is up to 40% of base pay, and COO up to 25% of base pay. Five other senior managers are participants in this LTIP plan with an opportunity up to 25% of base pay.

With effect from 1 April 2018, a bespoke LTIP was introduced with specific focus on the achievement of The Crown Estate's strategic goals in respect of the re-positioning of our Rural Land portfolio over the ensuing three years, two senior managers were invited to participate.

All LTIP awards and payments are subject to the approval of the Remuneration Committee.

Governance
Remuneration report continued

External Non-Executive Board appointments held by the executive

The Board of The Crown Estate encourages and supports non-executive appointments and sees these as part of the development of the executive. Executives also hold directorships of charities, which is encouraged by The Crown Estate.

Alison Nimmo holds one paid Non-Executive Board appointment in addition to her Crown Estate appointment. Paul Clark held two paid Non-Executive Board appointments in addition to his Crown Estate appointment during the year. Executives are permitted to retain earnings from their appointments and the Board is satisfied that these are manageable alongside their executive responsibilities and do not generate any conflict of interest with accountabilities at The Crown Estate.

In accordance with our policy on non-executive earnings, which requires disclosure for appointments in publicly listed companies, Alison Nimmo earned £66,000 in the year to 31 March 2019, as a Non-Executive Director of The Berkeley Group Holdings Plc.

Paul Clark was a non-executive director of Hermes Property Unit Trust. He was also a Non-Executive Director of Ronson Capital Partners until 31 December 2018.

Executive departure payments

No executive departure payments were made this year.

Pensions

The Crown Estate operates two pension schemes: the Principal Civil Service Pension Scheme (PCSPS) and The Crown Estate Pension Scheme (CEPS). Each scheme comprises a number of sections, which offer different pension benefits. The Classic, Classic Plus and Premium sections of the PCSPS provide defined benefits based on final earnings. The Nuvos and Alpha sections of the PCSPS provide defined benefits based on career average earnings. PCSPS benefits are subject to an upper earnings limit of £166,200.

Since March 2009, no new employees have been admitted to the PCSPS or the CEPS Opal section, and are instead offered access to the CEPS Quartz Core and Top Up (hybrid) or Topaz (defined contribution) sections.

Some employees who historically opted out of pension membership receive a cash allowance equal to 8% of basic pay. The cash allowance is no longer offered to new employees or anyone opting out of pension membership, with the exception of those employees who opt out as a result of HMRC tax free pension limits.

As at 31 March 2019, a total of 236 employees were members of the CEPS and 113 were members of the PCSPS. A further 12 employees receive the cash allowance.

Advisers to the Remuneration Committee

During the year the Committee undertook a review of advisers. The review was conducted through a formal tender process to which three firms were invited to apply. After due process the Committee agreed to reappoint Willis Towers Watson for a period of three years.

The following sections of the Remuneration report are covered by the Comptroller and Auditor General's opinion.

Remuneration and pension benefits of the Board

Board Members

Single total figure for remuneration.

	Salary (£)		Bonus payments (£)		Long-Term Incentive Plan (£)		Other payments (£)		Pension benefits (to the nearest £1,000)		Benefits in-kind (to the nearest £100)		Total (to the nearest £1,000)	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Robin Budenberg	50,000	50,000	–	–	–	–	–	–	–	–	–	–	50,000	50,000
Alison Nimmo (Chief Executive)[1,2]	344,780	334,950	228,000	246,566	116,114	–	40,502	39,323	–	–	900	800	730,000	622,000
Kate Bowyer (Chief Financial Officer)[1,2]	226,277	219,170	109,000	133,821	–	–	18,393	–	12,000	21,000	900	800	366,000	375,000
James Darkins	20,000	20,000	–	–	–	–	–	–	–	–	–	–	20,000	20,000
Paula Hay-Plumb[3]	25,000	25,000	–	–	–	–	–	–	–	–	–	–	25,000	25,000
Ian Marcus[3]	25,000	25,000	–	–	–	–	–	–	–	–	–	–	25,000	25,000
Dipesh Shah (appointment expired 31 December 2018)	15,000	20,000	–	–	–	–	–	–	–	–	–	–	15,000	20,000
Lynda Shillaw (appointed 1 January 2018)[4]	20,000	5,000	–	–	–	–	–	–	–	–	–	–	20,000	5,000

1 The bonus awards for Alison Nimmo and Kate Bowyer have been approved by the Remuneration Committee. Any amount over 50% of basic pay is subject to 12 months deferral in line with the agreement with the Treasury. For 2018/19 the deferral for Alison Nimmo is £55,471 (2017/18: £79,062) and for Kate Bowyer there is no deferral for 2018/19 (2017/18: £28,781). The deferred element of the bonus is payable in July following the financial year that the award was approved, subject to good leaver provisions.
2 The other payments for Alison Nimmo and Kate Bowyer comprise an allowance in lieu of pension contributions. Kate Bowyer opted out of the Topaz section (defined contribution) of The Crown Estate Pension Scheme on 30 September 2018. The figure for pension benefits represents the pension contribution made by The Crown Estate.
3 Chairs of committee receive an additional £5,000 p.a. to reflect their greater level of responsibility.
4 The full year equivalent total remuneration for 2018/19 for Dipesh Shah was £20,000 and in 2017/18 for Lynda Shillaw was £20,000.

Pension benefits

Alison Nimmo is not a member of The Crown Estate Pension Scheme. She receives a payment in lieu of pension contributions as disclosed in the single figure for remuneration.

Kate Bowyer was a member of The Crown Estate Pension Scheme (Topaz section), which is a defined contribution scheme until 30 September 2018. Employer contributions are disclosed in the single figure remuneration table above. As from 1 October 2018, she opted out of The Crown Estate Pension Scheme and received a payment in lieu of pension contributions as disclosed in the single figure for remuneration.

The Chairman and Independent Non-Executive Board Members are initially appointed for a term of four years with the prospect of renewal for a maximum of one further term of four years. Alison Nimmo, the Chief Executive, is also appointed on a four-year contract with a notice period of 12 months. Kate Bowyer is appointed as a Commissioner for a period of four years and as the Chief Financial Officer of The Crown Estate on a permanent contract with a notice period of six months.

Board Counsellors

Board Counsellors are non-voting members of the Board and are generally appointed for a period of one or two years.

	Salary £	
Single total figure for remuneration	**2018/19**	2017/18
Peter Madden	**20,000**	20,000
Gareth Baird	**20,000**	20,000

The salary figures above for Board Counsellors are the equivalent to the single figure for remuneration.

Executive Committee

	Salary		Bonus payments		Long-Term Incentive Plan		Transition award		Pension benefits[3] (to the nearest £1,000)		Benefits in-kind (to the nearest £100)		Total	
	2018/19 £'000	2017/18 £'000	**2018/19 £'000**	2017/18 £'000	**2018/19 £'000**	2017/18 £'000	**2018/19 £'000**	2017/18 £'000	**2018/19 £**	2017/18 £	**2018/19 £**	2017/18 £	**2018/19 £'000**	2017/18 £'000
Paul Clark[1]	**270-275**	260-265	**130-135**	160-165	**85-90**	–	**–**	60-65	**47,000**	47,000	**900**	800	**535-540**	535-540
Judith Everett[2]	**205-210**	195-200	**95-100**	100-105	**40-45**	–	**–**	–	**29,000**	28,000	**900**	800	**370-375**	325-330

1 The bonus award for Paul Clark has been approved by the Remuneration Committee. Any amount over 50% of basic pay is subject to 12 months deferral in line with the agreement with the Treasury. For 2018/19 there is no deferral for Paul Clark (2017/18: £37,674). The deferred element of the bonus is payable in July following the subsequent financial year that the award was approved, subject to good leaver provisions.
2 The bonus award for Judith Everett has been approved by the Remuneration Committee. Any amount over 50% of basic pay is subject to 12 months deferral in line with the agreement with the Treasury. For 2018/19 there is no deferral for Judith Everett (2017/18: £5,351).
3 In the case of the defined benefit sections of the scheme the value of pension benefits is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum, less contributions made by the individual. In the case of the defined contribution sections the figure represents the pension contribution made by The Crown Estate.

Paul Clark and Judith Everett as members of the Executive Committee are appointed on permanent contracts which provide for a notice period of six months.

Pension benefits

Executive Committee member	Accrued pension at normal retirement date as at 31 March 2019 £'000	Real increase in pension at normal retirement date £'000	Cash equivalent transfer value at 31 March 2019 £'000	Cash equivalent transfer value at 31 March 2018 £'000	Real increase in cash equivalent transfer value £'000
Paul Clark	20-25	0-2.5	742	773	68
Judith Everett	n/a	n/a	n/a	n/a	n/a

Paul Clark is a member of The Crown Estate Pension Scheme (Opal section) and Judith Everett is a member of The Crown Estate Pension Scheme (Topaz section).

Remuneration report continued

Pay multiples

	2018/19	2017/18
Band of highest paid executive's total remuneration (as defined below) £'000	685-690	580-585
Median total remuneration of all employees £	45,211	43,575
Ratio	15.24	13.35

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

Compensation for loss of office

The table below shows exit packages as a result of the restructuring of the business.

Exit package cost band

	2018/19 Number	2017/18 Number
Less than £10,000	1	1
£10,001-£25,000	4	4
£25,001-£50,000	8	6
£50,001-£100,000	4	11
Total number of exit packages	**17**	**22**
Total cost	**£650k**	**£1.1m**

Staff report

	2018/19 £m	2017/18 £m	2018/19 Number	2017/18 Number
Commissioners	1.3	1.2	10	10
Average number of staff with employment contracts	34.3	31.3	410	392
As shown in note 9 of the financial statements (excluding early retirement costs)	35.6	32.5	420	402
Other staff engaged on the objectives of The Crown Estate	1.1	0.8	10	12
Total staff	36.9	33.3	430	414

There were no off-payroll payments made during the year.

This Remuneration report has been approved by the Board and is signed by the Chair of the Remuneration Committee on behalf of the Board.

Ian Marcus
Chair of the Remuneration Committee

10 June 2019

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Financial statements

For the Group and Parent for the year ended 31 March 2019

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I certify that I have audited the financial statements of The Crown Estate and The Crown Estate Group for the year ended 31 March 2019 under the Crown Estate Act 1961. The financial statements comprise: The Crown Estate's and The Crown Estate Group's Consolidated Statements of Comprehensive Income (group only), Balance Sheets, Statements of Cash Flows, Statements of Changes in Capital and Reserves; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the information in the Remuneration report that is described in that report as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of The Crown Estate's and The Crown Estate Group's affairs as at 31 March 2019 and of The Crown Estate Group's net consolidated revenue profit and net consolidated capital profit for the year then ended;
- have been properly prepared in accordance with the Crown Estate Act 1961 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require me to report to you whether I have anything material to add or draw attention to:

- the disclosures in the Annual Report that describe the principal risks and explain how they are being managed or mitigated;
- the Board's and Accounting Officer's confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the group and The Crown Estate, including those that would threaten its business model, future performance, solvency or liquidity;
- the Board's and Accounting Officer's statement in the financial statements about whether the Board and the Accounting Officer considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Board and the Accounting Officer's identification of any material uncertainties to the group's and The Crown Estate's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; or
- the Board's and Accounting Officer's explanation in the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group and The Crown Estate will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of The Crown Estate in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework that has been applied is the Crown Estate Act 1961 and relevant HM Treasury directions made under the Act.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around:

- the presumed risk of management override of The Crown Estate's control environment, as required by the International Standards on Auditing; or
- The Crown Estate's in-year upgrade to its accounting system which did not involve a significant migration of its financial information from one platform to another.

My work in these areas has not identified any matters to report.

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 72-73.

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Investment property valuations

Description of risk

The most significant transactions and balances within The Crown Estate's financial statements relate to investment property assets and their valuations. Management engaged professional valuers to provide valuations of investment property assets as at 31 March 2019. The valuations are formed from the application of methodologies that use a number of assumptions and judgements, which, if inappropriate or incorrect, present a significant risk of material misstatement within the accounts.

How the scope of my audit responded to the risk

I performed procedures to gain assurance from the work conducted by third party valuers engaged by The Crown Estate.

In assessing whether their work provides a sound basis for valuation, on a sample basis, I considered their overall competence, capability and objectivity (as management's experts), as well as the scope of their work and its relevance to the accounts and my opinion.

In particular, I considered the valuation methodology they applied, the completeness and validity of the data inputs to those valuations, and, using independent valuation experts within my audit team, the appropriateness of the key assumptions on which the valuations were based.

I have challenged management on the reasons for significant movements in individual property valuations at year end, confirming these reasons to underlying documentation.

Key observations

I found The Crown Estate's controls over the valuation process to be designed and operating adequately and that asset valuations have been prepared using appropriate methodology and assumptions. I have no matters to raise.

Revenue recognition

Description of risk

The Crown Estate has a strategic objective to deliver a compound 5% per annum increase in net revenue surplus (profit) measured across a three-year period, adjusting for the net revenue surplus generated by discontinued operations. To achieve the 5% average, The Crown Estate needed to generate a net revenue surplus of £341.5 million in 2018/19.

The Crown Estate's key source of income is contractual rental revenue. In addition, The Crown Estate receives income from royalties for the extraction of minerals, as well as income for the sale of produce and miscellaneous fees.

There is a presumed risk of fraud due to revenue recognition as required by International Standards on Auditing. I have not rebutted this risk on the basis that the net revenue surplus is a key performance measure for The Crown Estate. If revenue was recognised in the accounts before it was properly due to The Crown Estate, for example, it would present a significant risk of material misstatement within the accounts.

How the scope of my audit responded to the risk

I have reviewed the design, implementation and operating effectiveness of The Crown Estate's budget setting and monitoring controls, including over revenue. I have considered the consistency of the design and operation of these procedures across the organisation. I have also confirmed the consistency of the internally reported financial results, used in the budget monitoring process, between the various management levels within the organisation.

I have predicted the total value of contractual rental income for the year and, in conjunction with this, tested a risk-based sample of leases back to underlying documentation to confirm the accuracy of the data used in my prediction. The risk characteristics I have considered for sample selection included new and high value leases.

I have also tested a sample of non-rental income.

I have also considered whether management's recognition of revenue from unsettled rent reviews is appropriate and whether the impairment made for aged debt is materially sufficient.

Key observations

I found The Crown Estate's controls to be designed and operating adequately. I also have no matters to raise from the detailed substantive testing.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for The Crown Estate's financial statements at £142 million and for The Crown Estate Group at £143 million, which is approximately 1% of gross assets. I chose this benchmark as I consider it to be the principal consideration for users assessing the financial performance of The Crown Estate. This is comparable to the materiality level that I used to audit and certify the 2017/18 financial statements. The benchmark that I chose to certify the 2017/18 financial statements was net assets, rather than gross assets. Although the change in benchmark does not make a significant difference to my overall materiality assessment, I have made this change to reflect industry practice for audits of comparable entities.

I have determined that for financial statement components connected with the revenue account and the consolidated revenue account within the consolidated statement of comprehensive income, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given the net revenue account profit is distributable to the Consolidated Fund. I have therefore determined that the level to be applied to these components is £34.4 million, and for The Crown Estate Group is £34.5 million, being approximately 10% of net revenue account profit. This is comparable to the materiality level and benchmark that I used to audit and certify the 2017/18 financial statements.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors relating to the Board and senior managers' remuneration as reported in the Remuneration report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £0.3 million, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Accounting Officer's statement, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Crown Estate Act 1961.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Crown Estate Group's or The Crown Estate's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

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From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Audit scope

The scope of my audit was determined by obtaining an understanding of The Crown Estate, The Crown Estate Group, and its environment, including entity/group-wide controls, and assessing the risks of material misstatement at the group level.

Total assets for the group are £14,328.9 million, of which £14,326.3 million are attributable to the parent, The Crown Estate.

My group audit approach focused on those balances assessed as being of the greatest significance to the group financial statements and their users. In establishing an overall approach I considered the size and risk characteristics of the component entities' financial information and determined the type of work that needed to be performed on each.

The parent is individually significant by virtue of its size and I have audited its full financial information. The remaining consolidating (subsidiary) entities have been subjected to audit work for the purpose of confirming that there is no risk of material misstatement or material irregular transactions within these entities to the group financial statements.

In addition, I have completed specific audit procedures on the material transactions and balances within The Crown Estate's joint ventures' financial information to confirm its share of joint venture net assets and profit as included under the equity method in the group accounts.

This work covered substantially all of the group's net assets and net income/expenditure, and together with the procedures performed at group level, gave me the evidence I needed for my opinion on the group financial statements as a whole.

Other information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Annual Report, but does not include the parts of the Remuneration report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Crown Estate Act 1961;
- in the light of the knowledge and understanding of The Crown Estate Group, The Crown Estate and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance and Governance sections of the Annual Report; and
- the information given in the Overview, Performance and Governance sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns;
- I have not received all of the information and explanations I require for my audit;
- the Governance section of the Annual Report does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

14 June 2019

Financials
Consolidated statements of comprehensive income

Consolidated revenue account for the year ended 31 March

	Note	2018/19 £m	2017/18 (Restated) £m
Revenue	5	468.0	452.1
Costs	6	(118.9)	(119.0)
Operating surplus		349.1	333.1
Finance income	11	5.0	2.7
Share of revenue profit of joint ventures	21	33.7	38.4
Share of revenue profit from other property investments	22	1.2	1.6
Net operating profit before depreciation, Treasury agreements and Statutory transfers		389.0	375.8
Depreciation of tangible fixed assets	23	(5.1)	(5.2)
Net operating profit before Treasury agreements and Statutory transfers		383.9	370.6
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	(32.9)	(31.8)
Statutory transfers	15	(9.8)	(11.7)
Parliamentary supply finance	16	2.3	2.3
Net consolidated revenue account profit		343.5	329.4
Consolidated statement of comprehensive income			
Net consolidated revenue account profit		343.5	329.4
Items that will not be reclassified subsequently to profit:			
Re-measurement gain on retirement benefits	10c	0.8	1.6
Total consolidated comprehensive revenue account profit		344.3	331.0

Consolidated capital account for the year ended 31 March

	Note	2018/19 £m	2017/18 (Restated) £m
Charge from revenue for salary costs	9	(10.9)	(10.8)
Net revaluation gains in investment property (including profits on disposal)	13	275.2	885.6
Share of (loss)/profit on disposal of property in joint ventures	13	(9.0)	2.1
Share of revaluation (losses)/gains in joint ventures	13	(57.9)	33.7
Share of revaluation deficit in other property investments	13	(6.1)	(1.9)
Capital profit before Treasury agreements and Statutory transfers		191.3	908.7
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	32.9	31.8
Statutory transfers	15	9.8	11.7
Net consolidated capital account profit		234.0	952.2
Consolidated statement of comprehensive income of the capital account			
Net consolidated capital account profit		234.0	952.2
Items that will not be reclassified subsequently to capital account profit:			
Gain on revaluation of owner occupied properties	13	3.4	1.5
Share of joint venture fair value movements on interest rate swaps treated as cash flow hedges	21	–	0.9
Total consolidated comprehensive capital account profit		237.4	954.6

The Crown Estate Act 1961 specifies certain distinctions between capital and revenue transactions. The consolidated revenue account represents income generated from managing the portfolio of assets, net of any associated costs and, by agreement with the Treasury, certain adjustments between the revenue and capital accounts. The consolidated capital account includes profits or losses arising on the sale of investment properties, revaluation gains and the other adjustments with the revenue account noted above. Further detail can be found in note 1.

Balance sheets
As at 31 March 2019

	Note	Group 2018/19 £m	Group 2017/18 (Restated) £m	Parent 2018/19 £m	Parent 2017/18 (Restated) £m
Assets					
Non-current assets					
Investment properties	18	**12,121.6**	11,638.7	**11,838.7**	11,462.4
Owner occupied property	19	**96.7**	91.8	**96.7**	91.8
Investment in joint ventures	21	**941.8**	1,111.1	**941.8**	1,111.1
Other property investments	22	**79.3**	85.4	**25.5**	34.3
Plant and equipment	23	**29.9**	32.0	**29.9**	32.0
Other investments	24	**10.8**	10.8	**10.8**	10.8
Receivables due after one year	25	**333.9**	317.5	**333.9**	317.5
Pension asset	10a	**10.1**	9.4	**10.1**	9.4
Total non-current assets		**13,624.1**	13,296.7	**13,287.4**	13,069.3
Current assets					
Trade and other receivables	25	**100.6**	83.9	**434.5**	306.8
Cash and cash equivalents		**802.8**	886.9	**798.6**	882.5
Total current assets		**903.4**	970.8	**1,233.1**	1,189.3
Total assets		**14,527.5**	14,267.5	**14,520.5**	14,258.6
Liabilities					
Current liabilities					
Payables and deferred income – amounts falling due within one year	26	**178.8**	157.1	**174.4**	150.6
Provisions	27	**1.1**	–	**1.1**	–
Total current liabilities		**179.9**	157.1	**175.5**	150.6
Payables and deferred income – amounts falling due after more than one year	26	**18.7**	19.7	**18.7**	19.7
Total liabilities		**198.6**	176.8	**194.2**	170.3
Net assets		**14,328.9**	14,090.7	**14,326.3**	14,088.3
Capital and reserves					
Revenue reserve available for distribution to the Consolidated Fund		**1.8**	1.7	**1.8**	1.7
Pension reserve		**10.1**	9.4	**10.1**	9.4
Capital reserve		**14,273.7**	14,039.7	**14,271.1**	14,037.3
Revaluation reserve		**43.3**	39.9	**43.3**	39.9
Total capital and reserves		**14,328.9**	14,090.7	**14,326.3**	14,088.3

A total comprehensive revenue account profit of £344.3 million (2017/18: £331.0 million) and a total comprehensive capital account profit of £237.2 million (2017/18: £947.7 million) are recorded in the financial statements of the Parent for the year ended 31 March 2019.

No income statement or statement of comprehensive income is presented for the Parent.

Dame Alison Nimmo DBE
Second Commissioner and Accounting Officer

10 June 2019

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Statements of changes in capital and reserves
For the year ended 31 March 2019

	Revenue account			Capital account			Total
Group	**Revenue reserves available for distribution to the Consolidated Fund £m**	**Pension reserve £m**	**Total £m**	**Capital reserve £m**	**Revaluation reserve £m**	**Total £m**	**£m**
As at 1 April 2018	1.7	9.4	11.1	14,039.7	39.9	14,079.6	14,090.7
Net consolidated profit for the period	343.5	–	343.5	234.0	–	234.0	577.5
Other consolidated comprehensive income:							
Revaluation surplus of owner occupied properties	–	–	–	–	3.4	3.4	3.4
Re-measurement gain on retirement benefits	–	0.8	0.8	–	–	–	0.8
Total consolidated comprehensive profit for the year ended 31 March 2019	343.5	0.8	344.3	234.0	3.4	237.4	581.7
Pension reserve adjustment	0.1	(0.1)	–	–	–	–	–
Payments to the Consolidated Fund – paid in year (note 17)	(330.0)	–	(330.0)	–	–	–	(330.0)
Payments to the Consolidated Fund – payable (note 17)	(13.5)	–	(13.5)	–	–	–	(13.5)
As at 31 March 2019	1.8	10.1	11.9	14,273.7	43.3	14,317.0	14,328.9
As at 1 April 2017	1.1	8.4	9.5	13,077.9	47.1	13,125.0	13,134.5
Net consolidated profit for the period	329.4	–	329.4	952.2	–	952.2	1,281.6
Other consolidated comprehensive income:							
Revaluation surplus of owner occupied properties	–	–	–	–	1.5	1.5	1.5
Share of joint venture fair value movements on interest-rate swaps treated as cash flow hedges	–	–	–	0.9	–	0.9	0.9
Re-measurement gain on retirement benefits	–	1.6	1.6	–	–	–	1.6
Total consolidated comprehensive profit for the year ended 31 March 2018	329.4	1.6	331.0	953.1	1.5	954.6	1,285.6
Pension reserve adjustment	0.6	(0.6)	–	–	–	–	–
Owner occupied reserve transfer	–	–	–	8.7	(8.7)	–	–
Payments to the Consolidated Fund – paid in year (note 17)	(320.0)	–	(320.0)	–	–	–	(320.0)
Payments to the Consolidated Fund – payable (note 17)	(9.4)	–	(9.4)	–	–	–	(9.4)
As at 31 March 2018	1.7	9.4	11.1	14,039.7	39.9	14,079.6	14,090.7

Parent	Revenue account: Revenue reserves available for distribution to the Consolidated Fund £m	Revenue account: Pension reserve £m	Revenue account: Total £m	Capital account: Capital reserve £m	Capital account: Revaluation reserve £m	Capital account: Total £m	Total £m
As at 1 April 2018	1.7	9.4	11.1	14,037.3	39.9	14,077.2	14,088.3
Net profit for the period	343.5	–	343.5	233.8	–	233.8	577.3
Other comprehensive income:							
Revaluation surplus of owner occupied properties	–	–	–	–	3.4	3.4	3.4
Re-measurement gain on retirement benefits	–	0.8	0.8	–	–	–	0.8
Total comprehensive profit for the year ended 31 March 2019	343.5	0.8	344.3	233.8	3.4	237.2	581.5
Pension reserve adjustment	0.1	(0.1)	–	–	–	–	–
Payments to the Consolidated Fund – paid in year (note 17)	(330.0)	–	(330.0)	–	–	–	(330.0)
Payments to the Consolidated Fund – payable (note 17)	(13.5)	–	(13.5)	–	–	–	(13.5)
As at 31 March 2019	1.8	10.1	11.9	14,271.1	43.3	14,314.4	14,326.3
As at 1 April 2017	1.1	8.4	9.5	13,082.4	47.1	13,129.5	13,139.0
Net profit for the period	329.4	–	329.4	945.3	–	945.3	1,274.7
Other comprehensive income:							
Revaluation deficit of owner occupied properties	–	–	–	–	1.5	1.5	1.5
Share of joint venture fair value movements on interest-rate swaps treated as cash flow hedges	–	–	–	0.9	–	0.9	0.9
Re-measurement gain on retirement benefits	–	1.6	1.6	–	–	–	1.6
Total comprehensive profit for the year ended 31 March 2018	329.4	1.6	331.0	946.2	1.5	947.7	1,278.7
Pension reserve adjustment	0.6	(0.6)	–	–	–	–	–
Owner occupied reserve transfer	–	–	–	8.7	(8.7)	–	–
Payments to the Consolidated Fund – paid in year	(320.0)	–	(320.0)	–	–	–	(320.0)
Payments to the Consolidated Fund – payable	(9.4)	–	(9.4)	–	–	–	(9.4)
As at 31 March 2018	1.7	9.4	11.1	14,037.3	39.9	14,077.2	14,088.3

Financials
Statements of cash flows
For the year ended 31 March 2019

	Group 2018/19 £m	Group 2017/18 (Restated) £m	Parent 2018/19 £m	Parent 2017/18 (Restated) £m
Operating surplus – consolidated revenue account	349.1	333.1	349.1	330.2
Increase in provisions for employee benefits	0.3	0.8	0.3	0.8
Decrease/(increase) in receivables	5.8	(25.1)	(37.2)	(62.4)
Increase/(decrease) in payables	19.9	2.5	19.3	(1.6)
Increase/(decrease) in provisions	1.1	(0.4)	1.1	(0.4)
Cash generated from operating activities	376.2	310.9	332.6	266.6
Interest received	5.2	3.0	5.2	3.0
Revenue distributions from investments in joint ventures	32.8	34.9	32.8	34.9
Distributions received from other property investments	1.2	1.6	0.9	0.9
Net cash inflow from operating activities	415.4	350.4	371.5	305.4
Cash flows from investing activities				
Acquisition of investment properties	(196.6)	(122.1)	(194.4)	(107.0)
Capital expenditure on investment properties	(184.7)	(151.7)	(141.4)	(124.0)
Proceeds from disposal of investment properties	189.0	407.6	187.6	407.6
Other capital receipts	3.8	8.1	3.8	7.4
Capital distributions from investments in joint ventures	58.2	–	58.2	–
Net investment in joint ventures	(28.1)	(87.4)	(28.1)	(87.4)
Proceeds from disposal of plant and equipment	–	0.3	–	0.3
Purchase of plant and equipment and other investments	(3.0)	(6.2)	(3.0)	(6.2)
Net cash inflow/(outflow) from investing activities	(161.4)	48.6	(117.3)	90.7
Cash flows from financing activities				
Finance lease payments	(1.0)	(0.2)	(1.0)	(0.2)
Parliamentary Supply finance	2.3	2.3	2.3	2.3
Net cash inflow from financing activities	1.3	2.1	1.3	2.1
Net increase in cash and cash equivalents before Consolidated Fund payment	255.3	401.1	255.5	398.2
Consolidated Fund payment	(339.4)	(339.8)	(339.4)	(339.8)
Increase/(decrease) in cash in the year after Consolidated Fund payment	(84.1)	61.3	(83.9)	58.4
Cash and cash equivalents at start of the period	886.9	825.6	882.5	824.1
Cash and cash equivalents at end of the period	802.8	886.9	798.6	882.5

Notes to the Group and Parent consolidated financial statements

1. Basis of preparation

The consolidated financial statements incorporate the financial statements of The Crown Estate. The financial statements have been prepared on a going concern and an accruals basis under the historic cost convention, modified to include investment properties, owner occupied properties and other investments recognised at fair value. They are prepared in accordance with section 2(5) of the Crown Estate Act 1961 and directions made by the Treasury.

The directions from the Treasury require that the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) endorsed by the European Union and the IFRS Interpretations Committee (IFRS IC) in force at 31 March 2019, except where these conflict with the Crown Estate Act 1961.

These financial statements are prepared in sterling, which is the functional currency of The Crown Estate and rounded to the nearest one hundred thousand pounds.

Impact of the Crown Estate Act 1961 on the financial statements

The Crown Estate is a body corporate regulated by the Crown Estate Act 1961 (the ‘Act’) and domiciled in the UK. The provisions of the Act specify certain distinctions between capital and revenue reflecting the Report of the Committee on Crown Lands before the Act was passed, to the effect that The Crown Estate resembles a trust, in which the revenue beneficiary is the Exchequer and the capital is held for Her Majesty and her successors.

The revenue account represents income generated from managing the portfolio of assets on behalf of Her Majesty and her successors, net of any associated costs and subject to the charge from revenue for salary costs for certain employees and the transfers between the capital and revenue account as required by Statutory provisions and Treasury agreements.

The capital account includes profits or losses arising on the sale of assets from the portfolio, the realisation of revaluation gains, the income arising on the grant of operating leases over land in exchange for a premium and other adjustments with the revenue account noted above. The Act requires capital and revenue accounts are distinguished in the financial statements.

The Act specifies that:

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

To meet the requirements of the Act, and the directions made by the Treasury:

- separate income statements are presented for revenue and capital accounts
- movements in comprehensive income are analysed between revenue and capital accounts.

Treasury agreements

The Act allows adjustments between revenue and capital specifically for the purposes of recouping capital expenditure out of the revenue account. As The Crown Estate is prohibited from borrowing, Treasury agreements provide The Crown Estate with a reliable and predictable source of capital. By agreement with the Treasury, this requirement is fulfilled by a transfer from the revenue to the capital account of an amount equivalent to 9% of the previous year’s revenue or net realised profit, excluding service charges, but including depreciation of plant and equipment.

Changes in accounting policies

These financial statements have been prepared on a consistent basis as those presented for the year ended 31 March 2018, except for the following standards and amendments which have been retrospectively implemented by The Crown Estate in the year. An analysis of the impact of adopting these to standards is provided in note 36.

- IFRS 9 (Financial Instruments)
- IFRS 15 (Revenue from Contracts with Customers)
- IFRS 16 (Leases), has been early adopted, and the accounting policy for lease contracts has been changed as detailed in note 2h
- Amendment to IAS 40 (Investment property).

A number of new amendments to standards have been issued, but are not yet effective for The Crown Estate. An analysis on the impact of the more significant amendments is set out below.

Standard, impact and effective date	Likely impact to The Crown Estate
A revision to IAS 19 (Employee benefits) clarifies calculation of past service costs and is effective for The Crown Estate from 1 April 2019.	The Crown Estate does not anticipate any material change to the reported results or disclosures from this change.
A revision to IAS 28 (Investments in associates) clarifies IFRS 9 applies to long-term interests in associates or joint ventures which form part of the net investment but are not consolidated through the equity method and is effective for The Crown Estate from 1 April 2019.	The Crown Estate does not anticipate any material change to the reported results or disclosures from this change.

2. Significant accounting policies

2a. Basis of consolidation

The consolidated financial statements for the year ended 31 March 2019 incorporate the financial statements of The Crown Estate and all of its subsidiary undertakings. Subsidiary undertakings are those entities controlled by The Crown Estate. The Crown Estate controls an entity when it is exposed to, or has rights to variable returns from the entity and has an ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences and until the date control ceases.

2b. Properties

Investment properties are those which are held to earn rental income or for capital appreciation or for both. Investment properties and those in the course of construction are held at fair value. They are valued on the basis of open market value.

Energy and mineral assets are valued only where a letting or licence exists, where an entry has occurred, or where an interest is expected to provide either a revenue cash flow or capital receipt within the foreseeable future.

Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties consist of costs incurred in relation to capital activities. At the balance sheet date, investment properties are revalued to fair value.

Any surplus or deficit arising on revaluing investment properties is recognised in the consolidated capital account.

Fair value measurement of investment property

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

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

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

Investment properties under development

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

Owner occupied properties

The Crown Estate treats as owner occupied certain dwellings occupied in the course of business and by employees and pensioners at the Windsor Estate. Any surplus or deficit arising on the revaluation of properties occupied by The Crown Estate is taken to revaluation reserve unless any loss in the period exceeds any cumulative gains previously recognised in the revaluation reserve. In this case the amount by which the loss in the period exceeds the net cumulative gain previously recognised is recorded in the consolidated capital account.

Disposals

Disposals are recognised at the date of legal completion or the date on which a long lease interest is granted to a customer. Profits and losses arising on disposal are recognised through the consolidated capital account. The profit or loss on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset at the date of disposal plus any costs directly incurred as a result of the sale.

Property assets held for sale

The Crown Estate will report assets as held for sale when a contract to sell the property has been exchanged, the property is immediately available for sale in its current condition, the sale is expected to complete within one year of the balance sheet date and it is highly likely the transaction will complete.

2c. Joint arrangements – joint ventures

A joint venture is a joint arrangement whereby The Crown Estate has joint control and has rights to its share of the net assets of the arrangement. Joint ventures are accounted for under the equity method. The balance sheet incorporates The Crown Estate's share of the net assets of the joint venture. The consolidated revenue account incorporates the share of the joint venture's profit after tax and the consolidated capital account incorporates The Crown Estate's share of revaluation of investment properties.

2d. Joint arrangements – joint operations

A joint operation is a joint arrangement whereby contractually there is an agreed sharing of control, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Crown Estate accounts for its share of the jointly controlled assets, its share of any liabilities jointly incurred with other venturers and its share of income and expenditure arising from these assets.

2e. Other property investments

Other property investments are shown at fair value which is equivalent to the share of net asset value.

2f. Other property, plant and equipment

Right-of-use assets are depreciated using the straight-line method from the start of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of similar plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

Vehicles: 4–10 years depending on the nature of the vehicle

Plant and equipment: 4–10 years

Computer equipment and software: 4 years

Office equipment: 4 years

Leasehold improvements: Length of the lease

Right-of-use assets – property leases: Length of lease

Useful lives and estimated residual values are reviewed annually.

Certain vehicles and plant are recognised as right-of-use assets under finance lease accounting as disclosed in note 2h. These assets are depreciated over their respective lease terms.

2g. Other investments – antiques and paintings

Antiques and paintings are shown at fair value. Any surplus or deficit arising from changes in fair value is recognised directly in the revaluation reserve. A valuation was carried out during the year ended 31 March 2017. They are valued by recognised experts every three years.

2h. Leases

The Crown Estate early adopted IFRS 16 (Leases), which replaces IAS 17, with effect from 1 April 2018.

At the inception of a contract The Crown Estate assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right for either The Crown Estate or our customers to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, The Crown Estate assesses whether:

- the contract involves the use of an identified asset – whether specified explicitly or implicitly, which is physically distinct or represents substantially all of the capacity of a distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the contract conveys the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- the lessee has the right to direct the use of the asset.

At inception or on reassessment of a contract that contains a lease component, The Crown Estate allocates the consideration in the contract to each component on the basis of their relative stand-alone prices. However, for the leases of buildings and motor vehicles in which it is a lessee, The Crown Estate has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

As a lessor

Where The Crown Estate acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, The Crown Estate makes an overall assessment of whether the lease substantially transfers all of the risks and rewards of ownership of the underlying asset to the lessee. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

When The Crown Estate is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease(s) separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If an arrangement contains lease and non-lease components, The Crown Estate applies IFRS 15 to allocate the consideration in the contract.

The Crown Estate recognises lease payments received for operating leases on a straight-line basis over the lease term from the date of lease commencement to the earliest termination date within revenue, which includes applying adjustments for lease incentives, such as rent free periods and contributions towards tenant costs. A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews.

Leases granted to tenants where substantially all the risks and rewards of ownership are retained by The Crown Estate as lessor are classified as operating leases. Under the requirements of the Act, a lease premium received on the grant of a lease with a term of 30 years or less is recorded within the revenue account and spread evenly over the life of the lease.

As a lessor – finance leases

Leases granted to tenants where substantially all the risks and rewards of ownership are transferred to the tenant as lessee are classified as finance leases. Where the grant of an extended lease includes deferred payments, the asset is de-recognised as investment property and recognised as a finance lease receivable. Lease income is recognised within revenue at a constant rate of return over the period of the lease. Premia received on the grants of a lease with terms of 31 years or more are recorded within the capital account, which is consistent with the requirements of the Act.

The Crown Estate as a lessee

The Crown Estate recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset related to investment properties is recognised as an asset as the sum of the premium paid on acquisition and the present value of minimum lease payments. The corresponding rent liability to the head leaseholder is included in the balance as a finance lease obligation.

The Crown Estate presents right-of-use assets as either investment property or plant and equipment on the Balance Sheet, depending on the nature of the leased asset.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using The Crown Estate's theoretical incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments. The lease liability is measured at amortised cost using the effective interest method.

The Crown Estate has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Crown Estate recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2i. Revenue

The Majority of The Crown Estate income arises from leases, the accounting for which is described in note 2h. IFRS 15 was brought into effect on 1 January 2018 and replaces IAS 18 (Revenue) and IAS 11 (Construction Contracts). IFRS 15 does not apply to lease contracts subject to IFRS 16, which constitute approximately 90% of The Crown Estate's revenue.

Revenue is recognised using a five step model; identification of the contract, identification of the performance obligations within the contract, determination of the transaction price, allocation of the price to the performance obligations, then revenue is recognised as the performance obligations are fulfilled.

Revenue is recorded net of VAT and only to the extent that economic benefit is expected to flow to The Crown Estate.

Financials

Notes to the Group and Parent consolidated financial statements continued

2. Significant accounting continued

Service charge income

The Crown Estate incurs certain costs in relation to properties which are occupied by our customers which, as is common with commercial leases, are recharged to our customers. Service charge income is reported separately, as it represents a separate performance obligation. Service charge income is recognised as associated costs are incurred.

Licence income

Licence income arises primarily from granting customers rights to lay under-sea pipes or cables and granting coastal rights, such as mooring fees. Licences share many of the same attributes as leases, but do not qualify as leases as the asset is not identified within the contract. Revenue from licences is recognised on a straight-line basis over the term of the licence.

In respect of both royalty income and service charge income, contracts, performance obligations, and prices relating to performance obligations are clearly defined in writing and revenues are actually received as performance obligations are met.

Royalty income

Royalty income is received in return for the extraction of minerals and aggregates from the land and seabed by our customers or their agents. Royalty income is recognised as the minerals are extracted.

Miscellaneous income

The majority of miscellaneous income relates to visitor and estate services at Windsor Great Park. These sales are typically to the general public and are not subject to the same formal contracts as other revenue streams. Revenue is recognised when cash is received, which is typically also the point when the good or service is provided and, where appropriate, the risks and rewards of ownership transfer to our customers.

Other income

Other income relates to property management and support services provided to our joint venture and joint operator partners in relation to the properties we manage and distributions from minority investments. Property management service income is recognised evenly across the period over which the services are provided and distributions are recognised when they are declared by the investee.

2j. Taxation

The Crown Estate is not subject to corporation, income or capital gains tax. The consolidated revenue account profit is paid to the Treasury on an annual basis and will be used for the benefit of the taxpayer. As a result of this unique position, The Crown Estate does not recognise any deferred tax.

2k. Pensions – Defined Benefit Plans

The Crown Estate operates two pension schemes providing retirement and related benefits to all eligible employees as follows:

a. The Principal Civil Service Pension Scheme (PCSPS)

The PCSPS is an unfunded multi-employer defined benefit scheme. The Crown Estate is unable to identify its share of the underlying assets and liabilities and as such has accounted for the scheme as a defined contribution scheme. A full actuarial valuation was carried out as at 31 March 2016. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

b. The Crown Estate Pension Scheme (CEPS)

The CEPS has: a defined benefit section, the Opal Section (which closed to new entrants with effect from 1 January 2008); a defined contribution section and a hybrid section, the Quartz Section.

The assets of the scheme are held separately from those of The Crown Estate, in an independently administered fund. The full value of the net assets or liabilities are recorded on the Balance Sheet at each reporting date.

The current service cost of the scheme is charged to the revenue account. The contributions are agreed by The Crown Estate and the Trustees on the basis of triennial valuations using the projected unit method. The Remuneration report contains further details of the operation of the scheme.

Remeasurement gains and losses are recognised in the pension reserve. Pension scheme surpluses are only recognised to the extent that The Crown Estate has an unconditional right to utilise the surplus.

2l. Financial instruments

IFRS 9 was brought into effect on 1 January 2018 and replaces IAS 39. The only financial assets held are equity and partnership interests, joint venture interests, net pension assets, trade and other receivables, and finance lease receivables. The Crown Estate has no financial liabilities except trade and other payables and finance lease liabilities. There are no embedded derivatives within these contracts.

IFRS 9 does not apply to pension assets subject to IAS 19, nor does it apply to finance lease receivables or liabilities which are subject to IFRS 16. IFRS 9 does not apply to interests in subsidiaries, associates and joint ventures which are instead subject to IFRS 10, IAS 27 and IAS 28. The Crown Estate's equity investments in the Lend Lease Retail Partnership and The Pollen Estate are not subject to IFRS 10, IAS 27 or IAS 28.

Trade receivables are measured at transaction price, utilising the exception for trade receivables which are not subject to a material finance element. Expected credit losses are calculated using the simplified approach.

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3. Significant judgements, key assumptions and estimates

The preparation of these financial statements requires the Board make certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income, expenses and related disclosures. In the process of applying the accounting policies, which are outlined in note 2, the Board have made no individual judgements that have a significant impact on the financial statements, except those involving estimates that are outlined below.

3a. Property valuations

Investment properties and owner occupied properties are shown at fair value as calculated by independent qualified valuation experts, further information about valuations is included in note 20. Valuations are based on a number of key assumptions including an estimate of future rental income, anticipated future costs, and a discount rate. The valuers also compare their valuations to market data for other similar assets.

3b. Joint venture valuations

Joint ventures primarily comprise property investments and therefore the carrying value includes the same inherent risks as for assets that are wholly owned. However, certain future expenses, such as property improvements, require the approval of both joint venture partners, increasing the uncertainty over this element of the valuation.

3c. Accounting for complex transactions

By their nature, property transactions can be complex and are often material. For example, judgement is required in assessing exactly when risks and rewards of an asset transfer to or from The Crown Estate, which assets should be classified as held for sale and whether transactions, or components thereof, are capital or revenue account in nature. The Crown Estate considers each individual property transaction separately and seeks independent accounting advice as necessary.

3d. Recoverability of receivables

Consistent with market practice, in certain circumstances, The Crown Estate offers retail customers incentives to enter into operating leases. The revenue adjustments required to account for these incentives on a straight-line basis create a long-term receivable. Judgement is required to calculate the carrying value of these incentives, especially given the challenging operating environment currently facing our retail customers.

4. Segmental analysis

Business segmental analysis

The Crown Estate operations are all in the UK and are currently organised into five operating divisions, plus central costs. These divisions are the basis on which operations are monitored and decisions are made by the members of the executive committee, which is considered to be the Primary Operating Decision Maker. For the year to 31 March 2019, the divisions were: Central London, Regional, Rural & Coastal, the Windsor Estate and Energy, Minerals & Infrastructure. On 1 April 2019, the Rural portfolio merged with the Regional portfolio and the Coastal portfolio merged with Energy, Minerals & Infrastructure. The segments will be reported on the revised basis in the Annual Report and Accounts for 31 March 2020. Further analysis of the composition of each business unit is contained in the Performance section of this Annual Report and Accounts.

								2018/19
Consolidated revenue account	Note	Central London £m	Regional £m	Rural & Coastal £m	Windsor Estate £m	Energy, Minerals & Infrastructure £m	Central costs/ other £m	Total £m
Rental revenue	5	214.3	92.4	31.5	6.6	52.8	–	397.6
Finance lease income	5	5.0	–	–	–	–	–	5.0
Revenue from contracts with customers	5	2.4	–	3.2	5.4	21.9	–	32.9
Other revenue	5	2.2	3.3	–	–	–	–	5.5
Revenue (excluding service charge income)	5	223.9	95.7	34.7	12.0	74.7	–	441.0
Service charge income	5	18.9	8.1	–	–	–	–	27.0
Revenue – as reported	5	242.8	103.8	34.7	12.0	74.7	–	468.0
Direct property costs	6	(18.6)	(13.5)	(3.8)	(9.1)	(3.8)	–	(48.8)
Service charge expense	6	(29.4)	(10.0)	–	–	–	–	(39.4)
Total direct costs		(48.0)	(23.5)	(3.8)	(9.1)	(3.8)	–	(88.2)
Gross surplus		194.8	80.3	30.9	2.9	70.9	–	379.8
Administrative expenses	8	(0.5)	(0.2)	(0.1)	(0.1)	(0.4)	(29.4)	(30.7)
Operating surplus/(deficit)		194.3	80.1	30.8	2.8	70.5	(29.4)	349.1
Finance income (net)	11	0.1	–	–	–	–	4.9	5.0
Share of revenue profit from joint ventures[1]	21	11.9	21.8	–	–	–	–	33.7
Share of revenue profit from other property investments	22	0.7	0.5	–	–	–	–	1.2
Net operating profit/(loss) before depreciation, Treasury agreements and Statutory transfers		207.0	102.4	30.8	2.8	70.5	(24.5)	389.0
Depreciation of tangible fixed assets[1]	23	1.5	–	–	(0.2)	–	(6.4)	(5.1)
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	–	–	–	–	–	(32.9)	(32.9)
Statutory transfers	15	–	–	–	–	–	(9.8)	(9.8)
Parliamentary Supply finance	16	–	–	–	–	–	2.3	2.3
Net consolidated revenue account profit – distributable to the Consolidated Fund		208.5	102.4	30.8	2.6	70.5	(71.3)	343.5

1 Included within the Central London share of profit from joint ventures and depreciation is an adjustment to eliminate The Crown Estate's share of rental payments to a joint venture.

		2018/19						
Consolidated capital account	Note	Central London £m	Regional £m	Rural & Coastal £m	Windsor Estate £m	Energy, Minerals & Infrastructure £m	Central costs/ other £m	Total £m
Charge from revenue account for salary costs	9	(4.2)	(1.8)	(1.5)	(0.2)	(3.2)	–	(10.9)
Net revaluation gains on investment property (including profits on disposal)	13	169.0	(113.0)	20.9	5.1	193.2	–	275.2
Share of profit on disposal of property in joint ventures	13	–	(9.0)	–	–	–	–	(9.0)
Share of revaluation gains in joint ventures	13	(2.9)	(55.0)	–	–	–	–	(57.9)
Share of revaluation gains/(deficits) in other property investments	13	2.7	(8.8)	–	–	–	–	(6.1)
Capital profit before Treasury agreements and Statutory transfers		164.6	(187.6)	19.4	4.9	190.0	–	191.3
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	–	–	–	–	–	32.9	32.9
Statutory transfers	15	–	–	–	–	–	9.8	9.8
Net consolidated capital account profit		164.6	(187.6)	19.4	4.9	190.0	42.7	234.0
Investment properties								
Market value of investment properties	18	7,685.3	1,768.6	1,164.8	224.4	1,586.3	–	12,429.4
Investment properties treated as finance leases	28	(295.3)	–	–	–	–	–	(295.3)
Head lease liabilities	18	–	2.5	–	–	–	–	2.5
Less: lease incentives	18	–	(15.0)	–	–	–	–	(15.0)
Investment properties at fair value – as reported	18	7,390.0	1,756.1	1,164.8	224.4	1,586.3	–	12,121.6
Joint ventures								
Share of investment properties in joint ventures at valuation	21	417.0	513.7	–	–	–	–	930.7
Share of other net assets in joint ventures	21	12.9	(1.8)	–	–	–	–	11.1
Share of joint ventures – as reported	21	429.9	511.9	–	–	–	–	941.8
Proportionally consolidated investment properties								
Market value of investment properties	18	7,685.3	1,768.6	1,164.8	224.4	1,586.3	–	12,429.4
Owner occupied properties	19	–	–	–	96.7	–	–	96.7
Share of investment properties in joint ventures at valuation	21	417.0	513.7	–	–	–	–	930.7
Other property investments	22	53.8	25.5	–	–	–	–	79.3
Total market value of investment properties – proportionally consolidated		8,156.1	2,307.8	1,164.8	321.1	1,586.3	–	13,536.1
Acquisitions and capital expenditure	18 & 19	280.1	52.2	15.2	8.5	11.7	–	367.7

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Notes to the Group and Parent consolidated financial statements continued

4. Segmental analysis continued

2017/18 (Restated)

Consolidated revenue account	Note	Central London £m	Regional £m	Rural & Coastal £m	Windsor Estate £m	Energy, Minerals & Infrastructure £m	Central costs/ other £m	Total £m
Rental revenue	5	203.6	86.6	31.5	6.2	48.1	–	376.0
Finance lease income	5	3.9	–	–	–	–	–	3.9
Revenue from contracts with customers	5	0.3	–	3.8	5.0	24.9	–	34.0
Other revenue	5	2.0	5.9	0.1	–	–	–	8.0
Revenue (excluding service charge income)	5	209.8	92.5	35.4	11.2	73.0	–	421.9
Service charge income	5	23.8	6.4	–	–	–	–	30.2
Revenue – as reported	5	233.6	98.9	35.4	11.2	73.0	–	452.1
Direct property costs	6	(21.5)	(9.7)	(5.6)	(9.3)	(3.6)	–	(49.7)
Service charge expense	6	(32.6)	(7.9)	–	–	–	–	(40.5)
Total direct costs		(54.1)	(17.6)	(5.6)	(9.3)	(3.6)	–	(90.2)
Gross surplus		179.5	81.3	29.8	1.9	69.4	–	361.9
Administrative expenses	8	(0.4)	(0.1)	(0.3)	(0.2)	(0.5)	(27.3)	(28.8)
Operating surplus/(deficit)		179.1	81.2	29.5	1.7	68.9	(27.3)	333.1
Finance income (net)	11	–	–	0.1	–	–	2.6	2.7
Share of revenue profit from joint ventures[1]	21	13.4	25.0	–	–	–	–	38.4
Share of revenue profit from other property investments	22	0.7	0.9	–	–	–	–	1.6
Net operating profit/(loss) before depreciation, Treasury agreements and Statutory transfers		193.2	107.1	29.6	1.7	68.9	(24.7)	375.8
Depreciation of tangible fixed assets[1]	23	1.4	–	–	–	–	(6.6)	(5.2)
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	–	–	–	–	–	(31.8)	(31.8)
Statutory transfers	15	–	–	–	–	–	(11.7)	(11.7)
Parliamentary Supply finance	16	–	–	–	–	–	2.3	2.3
Net consolidated revenue account profit – distributable to the Consolidated Fund		194.6	107.1	29.6	1.7	68.9	(72.5)	329.4

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2017/18 (Restated)

Consolidated capital account	Note	Central London £m	Regional £m	Rural & Coastal £m	Windsor Estate £m	Energy, Minerals & Infrastructure £m	Central costs/ other £m	Total £m
Charge from revenue account for salary costs	9	(4.6)	(2.4)	(1.1)	–	(2.7)	–	(10.8)
Net revaluation gains on investment property (including profits on disposal)	13	570.6	1.1	34.5	12.9	266.5	–	885.6
Share of profit on disposal of property in joint ventures	13	–	2.1	–	–	–	–	2.1
Share of revaluation gains in joint ventures	13	10.2	23.5	–	–	–	–	33.7
Share of revaluation gains in other property investments	13	4.1	(6.0)	–	–	–	–	(1.9)
Capital profit before Treasury agreements and Statutory transfers		580.3	18.3	33.4	12.9	263.8	–	908.7
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	–	–	–	–	–	31.8	31.8
Statutory transfers	15	–	–	–	–	–	11.7	11.7
Net consolidated capital account profit		580.3	18.3	33.4	12.9	263.8	43.5	952.2

Investment properties								
Market value of investment properties	18	7,274.0	1,758.6	1,279.4	213.9	1,394.1	–	11,920.0
Investment properties treated as finance leases	28	(266.8)	–	–	–	–	–	(266.8)
Head lease liabilities	18	–	2.5	–	–	–	–	2.5
Less: lease incentives	18	–	(17.0)	–	–	–	–	(17.0)
Investment properties at fair value – as reported	18	7,007.2	1,744.1	1,279.4	213.9	1,394.1	–	11,638.7

Joint ventures								
Share of investment properties in joint ventures at valuation	21	412.1	747.3	–	–	–	–	1,159.4
Share of other net assets in joint ventures	21	14.1	(62.4)	–	–	–	–	(48.3)
Share of joint ventures – as reported	21	426.2	684.9	–	–	–	–	1,111.1

Proportionally consolidated investment properties								
Market value of investment properties	18	7,274.0	1,758.6	1,279.4	213.9	1,394.1	–	11,920.0
Owner occupied properties	19	–	–	–	91.8	–	–	91.8
Share of investment properties in joint ventures at valuation	21	412.1	747.3	–	–	–	–	1,159.4
Other property investments	22	51.1	34.3	–	–	–	–	85.4
Total market value of investment properties – proportionally consolidated		7,737.2	2,540.2	1,279.4	305.7	1,394.1	–	13,256.6

Acquisitions and capital expenditure	18 & 19	182.6	54.3	21.7	11.0	2.7	–	272.3

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5. Revenue

	2018/19 £m	2017/18 (Restated) £m
Revenue account		
Lease income	397.6	376.0
Finance lease income	5.0	3.9
Revenue from contracts with customers	32.9	34.0
Other income	5.5	8.0
Revenue (excluding service charge income)	441.0	421.9
Service charge income	27.0	30.2
Revenue – as reported	468.0	452.1
Impairment on receivables		
Impairment on rental income receivable	1.8	2.6
Total impairment on receivable expense	1.8	2.6

Mineral royalty income of £11.6 million (2018: £15.6 million) is recognised as minerals are extracted and is invoiced semi-annually in arrears. Income from admission fees and the sale of goods at Windsor Great Park is recognised as the transactions occur and payments are received. All other revenue from contracts with our customers is recognised over time as the services are delivered. Licence income from undersea cables and pipelines of £21.8 million (2018: £24.9 million) is reported separately to rental income as the asset is not explicitly identified within the contract, although the contracts have otherwise similar terms. Our customers typically pay licence fees and service charges before the services are rendered and are primarily commercial organisations that operate across a wide range of sectors.

6. Costs

	2018/19 £m	2017/18 (Restated) £m
Management fees and costs	16.2	15.1
Repairs and maintenance	3.3	5.0
Staff costs (note 9)	9.2	8.2
Other direct expenditure	20.1	21.4
Direct property costs	48.8	49.7
Service charge expense (note 7)	39.4	40.5
Administrative expenses (note 8)	30.7	28.8
Costs reflected in the revenue account	118.9	119.0

7. Property costs

	2018/19 £m	2017/18 £m
Service charge income (note 5)	(27.0)	(30.2)
Service charge expense (note 6)	39.4	40.5
Net service charge expense	12.4	10.3
Direct costs (note 6)	48.8	49.7
Total property costs	61.2	60.0

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8. Administrative expenses

	2018/19 £m	2017/18 (Restated) £m
Staff costs (note 9)	**16.2**	14.3
Management and administration expenses	**14.3**	14.4
Auditors' remuneration in respect of their audit of the financial statements	**0.2**	0.1
Total administrative costs	**30.7**	28.8

9. Staff costs

The total cost of Crown Estate employees (including Board Members) included in direct operating costs, indirect operating expenses, administrative expenses and the capital account during the year was as follows:

	2018/19 £m	2017/18 £m
Wages and salaries	**28.7**	25.9
Reorganisation and early retirement costs	**0.7**	0.8
National insurance costs	**3.5**	3.1
Current service cost – defined benefit scheme	**1.3**	1.4
Pension contributions – other pension schemes	**2.1**	2.1
Total staff costs	**36.3**	33.3
Less staff costs charged to capital account	**(10.9)**	(10.8)
Staff costs reflected in the revenue account	**25.4**	22.5
Included in:		
Direct costs (note 6)	**9.2**	8.2
Administrative expenses (note 8)	**16.2**	14.3
Capital account	**10.9**	10.8
Total staff costs	**36.3**	33.3

	Number	Number
The average number of employees during the year	**420**	404

Members of the executive committee and the Board are considered to be The Crown Estate's key management personnel. Details of their remuneration are disclosed in the Remuneration report.

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10. Retirement benefits

The disclosures below relate to the Opal and Quartz Core sections of The Crown Estate Pension Scheme. All income statement and other comprehensive income statement balances are recorded in the revenue account. A full actuarial valuation was carried out as at 31 March 2018 and updated to 31 March 2019 by a qualified independent actuary.

At 31 March 2019, the value of the scheme's assets was £58.2 million and these exceeded the actuarial value of the scheme liabilities by £10.1 million (17.4%). The actuarial assumptions used for the statutory funding valuation of the accrued benefits as at 31 March 2019 are that the pre-retirement investment yield would in the long term exceed earnings increases by 1.7% p.a. and the post-retirement investment yield would be in line with pension increases. The actuarial assumptions used to determine the future service contribution rates use investment yields that are 2.0% p.a. and 0.5% p.a. higher respectively than the pre-retirement and post-retirement investment yields adopted for the statutory funding valuation. The regular employer contribution rates have increased to 45.0% of pensionable earnings p.a. for the Opal Section and 19.5% of capped pensionable earnings p.a. for the Quartz Core Section.

10a Balance sheet and notes

Group and Parent

Amounts recognised in the consolidated balance sheet	2018/19 £m	2017/18 £m
Present value of funded obligations	(48.1)	(45.6)
Fair value of scheme assets	58.2	55.0
Net asset recognised in the consolidated balance sheet at 31 March	10.1	9.4

Changes in the present value of the defined benefit obligation	2018/19 £m	2017/18 £m
Present value of defined benefit obligation at beginning of year	45.6	46.1
Current service cost	1.3	1.4
Interest cost	1.2	1.2
Members' contributions	0.2	0.2
Actuarial (gain)/loss on plan liabilities	1.2	(2.1)
Benefits paid	(1.4)	(1.2)
Present value of defined benefit obligation at 31 March	48.1	45.6
Analysis of the defined benefit obligation		
Present value of the funded defined benefit obligation	48.1	45.6

Changes in the fair value of plan assets	2018/19 £m	2017/18 £m
Fair value of plan assets at start of year	55.0	54.5
Interest income	1.4	1.4
Actuarial gain/(loss) on plan assets	2.0	(0.5)
Contributions by The Crown Estate	1.0	0.6
Members' contributions	0.2	0.2
Benefits paid	(1.4)	(1.2)
Fair value of assets at end of year	58.2	55.0

Analysis of return on plan assets	2018/19 £m	2017/18 £m
Interest income	1.4	1.4
Actuarial gain/(loss) on plan assets	2.0	(0.5)
Actual return on scheme assets	3.4	0.9

10b Amounts to be recognised in the consolidated revenue account

	2018/19 £m	2017/18 £m
Net financing surplus (note 11)	(0.2)	(0.2)
Current service cost	1.3	1.4
Total pension expense	1.1	1.2

10c Total amount recognised in the consolidated statement of comprehensive income

	2018/19 £m	2017/18 £m
Actuarial (loss)/gain on plan assets	2.0	(0.5)
Actuarial gain/(loss) on plan liabilities	(1.2)	2.1
Actuarial profit recognised in the consolidated statement of comprehensive income of the revenue account	0.8	1.6
Actuarial profit/(loss) on defined benefit obligation:		
(Loss)/gain due to experience	(0.1)	(0.5)
Gain due to demographic assumptions	1.1	1.8
Gain/(loss) due to financial assumptions	(2.2)	0.8
Total actuarial (loss)/profit on defined benefit obligation	(1.2)	2.1

10d Cumulative amount recognised in the consolidated statement of comprehensive income of the revenue account

	2018/19 £m	2017/18 £m
Cumulative actuarial gains since adoption of IAS 19	3.0	2.2

10e Major categories of plan assets

	2018/19 £m	Percentage of total assets 2018/19	2017/18 £m	Percentage of total assets 2017/18
Equities	23.4	40.2%	30.7	55.8%
Government bonds	25.5	43.8%	24.2	44.0%
Other	–	0.0%	0.1	0.2%
Cash	9.3	16.0%	–	0.0%
Total	58.2	100.0%	55.0	100.0%

The overall expected return on assets has been derived by considering the long-term expected rate of return for each asset class and taking the average of these rates weighted by the proportion invested in each asset class at the year end.

10f Principal actuarial assumptions at 31 March

	2018/19	2017/18
Discount rate	2.45%	2.60%
RPI price inflation	3.20%	3.10%
CPI price inflation	2.10%	2.00%
Rate of increase in salaries	2.70%	2.60%
Pension increases	3.20%	3.10%
The mortality assumptions used in this calculation were:		
Life expectancy for a male currently aged 60	27.6	28.1
Life expectancy for a female currently aged 60	28.6	29.1
Life expectancy for a male when they are 60, currently aged 40	29.3	29.9
Life expectancy for a female when they are 60, currently aged 40	30.5	31.0

10g Experience gains and losses

	2018/19 £m	2017/18 £m	2016/17 £m	2015/16 £m	2014/15 £m
Liabilities at year end	(48.1)	(45.6)	(46.1)	(40.3)	(41.6)
Assets at year end	58.2	55.0	54.5	46.3	46.9
Surplus at year end	10.1	9.4	8.4	6.0	5.3
Asset gain/(loss)					
Amount	2.0	(0.5)	9.2	(1.8)	4.3
Percentage of scheme assets	3.6%	(0.9)%	16.9%	(3.9)%	9.2%
Liability (loss)/gain					
Amount	(0.1)	(0.5)	0.3	0.6	1.7
Percentage of scheme liabilities	(0.2)%	(1.1)%	0.7%	1.5%	4.1%

For the year to 31 March 2019, employer contributions to The Crown Estate Pension Scheme (including money purchase sections) were £2.0 million (2017/18: £1.6 million). For the year to 31 March 2019, employer contributions to The Principal Civil Service Pension Scheme (PCSPS) were £1.1 million (2017/8: £1.2 million).

For 2017/18 and 2018/19, employers' contributions were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% of pensionable pay, based on salary bands. The bands will change to the range 26.6% to 30.3% in 2019/20. Employer contributions are to be reviewed every four years following a full scheme valuation by the scheme actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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Notes to the Group and Parent consolidated financial statements continued

11. Finance income and expense

	2018/19 £m	2017/18 (Restated) £m
Bank interest income	5.2	3.0
Retirement benefits – net financing surplus (note 10b)	0.2	0.2
Finance lease interest cost	(0.4)	(0.5)
Net finance income	**5.0**	2.7

12. Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement

	2018/19 £m	2017/18 (Restated) £m
By agreement with the Treasury the income account is charged with an amount as disclosed in note 1		
Total recovered from the revenue to the capital account	32.9	31.8
Depreciation of fixed assets charged as costs in the income account (note 23)	5.1	5.2
Additional depreciation charge as a result of adopting IFRS 16 (note 36)	–	(0.9)
Total recovered under the Treasury agreement	**38.0**	36.1

As described in note 36, comparative balances including depreciation of fixed assets have been restated on adoption of IFRS 16. The total recovered under the Treasury agreement in 2017/18 has not been retrospectively changed as a result of this additional depreciation charge.

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

	2018/19 £m	2017/18 (Restated) £m
Reflected in the consolidated capital account		
Surplus on revaluation of investment properties (note 18)	199.3	768.4
Gain on disposal of investment properties	75.9	87.2
Net revaluation gains in investment property (including profits on disposal)	**275.2**	885.6
Share of (loss)/profit on disposal of property in joint ventures (note 21)	(9.0)	2.1
Share of revaluation (deficit)/gains in joint ventures (note 21)	(57.9)	33.7
Share of revaluation deficit in other property investments (note 22)	(6.1)	(1.9)
Total reflected in the consolidated capital account	**202.2**	919.5
Reflected in the statement of comprehensive income of the capital account		
Surplus on revaluation of owner occupied property (note 19)	3.4	1.5
Total	**205.6**	921.0

14. Financial instruments

The Act restricts The Crown Estate to holding land, cash and such other investments as permitted by section 3(4) of the Act. All holdings in land and property must be held directly by The Crown Estate. Geographically, all holdings must be within the United Kingdom. The financial assets held by The Crown Estate are cash equivalents and trade and other receivables.

Risk management

The Board has overall responsibility for the determination of The Crown Estate's risk management objectives as disclosed on pages 42 and 43. The Crown Estate is subject to credit risk in respect of customers and market risk in respect of investments in property partnerships and estates.

Deposits with banks and financial institutions

The Crown Estate limits its deposits to PRA regulated banks, incorporated in the UK or EEA and rated 'A' or above and diversifies its cash holdings between these institutions. As explained in note 1, the Act prevents The Crown Estate from entering into situations which would expose it to foreign exchange risk.

Trade receivables subject to credit risk

The primary credit risk The Crown Estate is exposed to relate to the recoverability of lease incentive assets. The credit risk associated with each customer is evaluated carefully on a recurring basis and the aggregate credit risk of The Crown Estate's receivables is managed actively. Receivables are impaired when there is evidence that credit losses may arise and are stated net of the associated provision on the balance sheet. The balance of trade receivables is relatively very low in relation to the value of The Crown Estate's assets. Therefore credit risk is low.

Investments subject to market risk

As described in note 22, The Crown Estate holds other property investments representing a 4.9% share of the Lend Lease Retail Partnership, a limited partnership, and a 6.4% share in the equity of The Pollen Estate. These investments are exposed to the risk that the net asset value of the underlying properties will decline and also the marketability of the securities themselves. Both risks are evaluated and quantified by The Crown Estate on a recurring basis.

Financial instruments by category

The Crown Estate's financial assets are cash and cash equivalents, trade and other receivables, other property investments and other financial assets, the carrying values of which are disclosed on the balance sheet. Financial instruments not measured at fair value include trade and other receivables and trade and other payables. As allowed by IFRS 9 trade receivables are measured at transaction price.

The Crown Estate's other property investments are measured at fair value. Specific disclosures for these investments are in note 22. The Crown Estate has no financial liabilities measured at fair value.

Liquidity risk

The Crown Estate does not hold any debt and does not hedge any cash flows, assets or liabilities. The Crown Estate is subject to liquidity risk, however in the absence of any borrowing, and given the level of cash currently held, this risk is negligible. Four-year capital cash flow forecasts are maintained to ensure The Crown Estate has sufficient funds for operational and capital requirements. Cash holdings are diversified as explained above.

At 31 March 2019	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Financial liabilities within trade payables	3.7	–	–	–	–
Financial liabilities within other payables	0.4	0.3	–	–	–
Total financial liabilities (undiscounted)	**4.1**	**0.3**	–	–	–

At 31 March 2018	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Financial liabilities within trade payables	2.5	–	–	–	–
Financial liabilities within other payables	–	0.7	–	–	–
Total financial liabilities (undiscounted)	2.5	0.7	–	–	–

Expected lifetime losses on trade and other receivables

The Crown Estate does not hold saleable collateral. The Crown Estate has a wide range of customers in a range of industries resulting in highly diversified credit risk in respect of trade receivables. The Crown Estate uses a lifetime expected loss allowance for trade and other receivables. The provision is shown below.

At 31 March 2019	Current	Less than 90 days past due	More than 90 but less than 180 days past due	More than 180 days past due	Total
Expected loss rate	1%	2%	11%	85%	8%
	£m	£m	£m	£m	£m
Gross carrying amount	44.3	3.7	6.2	3.3	57.5
Provision	0.6	0.1	0.7	2.8	4.2

15. Statutory transfers

Under the provisions of the Crown Estate Act 1961, the following amounts are carried to the capital account from the income account.

	2018/19 £m	2017/18 £m
Moieties:		
Mineral dealings	9.8	11.7

16. Parliamentary Supply finance

The Crown Estate Act 1961 provides that monies are provided by Parliament in respect of Commissioners' salaries and the expense of their Office. The total of such expenses chargeable to the Parliamentary Supply finance account for the current year is shown on the face of the income account and the detail is reported separately to Parliament as a Parliamentary Supply finance account.

17. Payment to the Consolidated Fund

In accordance with section 1 of the Civil List Act 1952, the net revenue account profit generated by The Crown Estate is paid into the Consolidated Fund. As The Crown Estate is not permitted to borrow, the payment to the Consolidated Fund in respect of the net surplus for the year is agreed with the Treasury taking into account The Crown Estate's short-term financing requirements. £330.0 million (2017/18: £320.0 million) was paid to the Treasury prior to the year end and a further £13.5 million (2017/18: £9.4 million) is included within payables. The total payment in respect of the year ended 31 March 2019 will be £343.5 million (2017/8: £329.4 million).

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18. Investment properties

Group	2018/19 Investment properties £m	2018/19 Properties under development £m	2018/19 Total £m	2017/18 (Restated) Investment properties £m	2017/18 (Restated) Properties under development £m	2017/18 (Restated) Total £m
At opening valuation (before lease incentives)	11,528.9	107.3	11,636.2	10,702.9	175.6	10,878.5
Acquisitions	194.3	2.3	196.6	129.5	–	129.5
Capital expenditure	96.8	72.8	169.6	69.1	72.1	141.2
Capital receipts	(3.8)	–	(3.8)	(8.1)	–	(8.1)
Transfers to other categories	137.5	(137.5)	–	134.3	(134.3)	–
Transfers from joint ventures	73.2	–	73.2	47.0	–	47.0
Transfer from owner occupied properties	–	–	–	–	–	–
Disposals	(152.0)	–	(152.0)	(320.3)	–	(320.3)
Revaluation	192.0	7.3	199.3	774.5	(6.1)	768.4
At closing valuation (before lease incentives)	12,066.9	52.2	12,119.1	11,528.9	107.3	11,636.2
Net finance lease payable	2.5	–	2.5	2.5	–	2.5
Closing fair value – as reported	12,069.4	52.2	12,121.6	11,531.4	107.3	11,638.7
Reconciliation to valuation						
At closing valuation (before lease incentives)	12,066.9	52.2	12,119.1	11,528.9	107.3	11,636.2
Investment properties treated as finance leases (note 28)	295.3	–	295.3	266.8	–	266.8
Lease incentives	15.0	–	15.0	17.0	–	17.0
Market value	12,377.2	52.2	12,429.4	11,812.7	107.3	11,920.0

Parent	2018/19 Total investment properties £m	2017/18 (Restated) Total Investment properties £m
At opening valuation (before lease incentives)	11,459.9	10,747.1
Acquisitions	194.4	114.4
Capital expenditure	129.0	113.5
Capital receipts	(3.8)	(7.4)
Transfers from joint ventures	73.2	–
Transfer from owner occupied properties	–	47.0
Disposals	(218.4)	(320.3)
Revaluation	201.9	765.6
At closing valuation (before lease incentives)	11,836.2	11,459.9
Net finance lease payable	2.5	2.5
Closing fair value – as reported	11,838.7	11,462.4

The unamortised element of lease incentives granted at 31 March 2019 were £15.0 million (2017/18: £17.0 million). Included within disposals and revaluation in the above tables is £8.4 million (2017/18: £4.4 million) of revaluation that arises on investment properties that have been classified as finance leases.

Investment property valuations are complex and derived using estimates of future income and corporate property transactions that are not publicly available. Consequently, all investment property valuations are classified as level 3 within IFRS 13.

All properties classified as investment properties under development are within the Central London and Regional portfolios.

The Crown Estate has a number of joint operations, the most significant of which is with Norges Bank Investment Management (NBIM) under which NBIM has a 25% interest through a 150-year lease of the majority of the properties in Regent Street and a 50% interest in 20 Air Street. The Crown Estate's (Group and Parent) share of jointly controlled assets is £4,748.0 million at 31 March 2019 (2017/18: £4,491.5 million) out of the total investment property value of £12,121.6 million (2017/18: £11,638.7 million).

The property portfolio was valued on 31 March 2019 by independent accredited external valuers with a recognised relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation methods used are in accordance with RICS and those recommended by the International Valuation Standards Committee and are consistent with the principles in IFRS 13. More information about the fair value measurement is set out in note 20.

	Group 2018/19 £m	Group 2017/18 £m	Parent 2018/19 £m	Parent 2017/18 £m
Historic cost of investment properties	3,399.2	3,160.5	3,087.2	2,957.5
Market value of freehold investment properties	12,312.3	11,793.5	12,029.4	11,617.2
Market value of long leasehold properties	117.1	126.5	117.1	126.5

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19. Owner occupied property

Group and Parent	2018/19 Total £m	2017/18 Total £m
Opening fair value	**91.8**	135.7
Capital expenditure	**1.5**	1.6
Revaluation	**3.4**	1.5
Transfer to investment properties	**–**	(47.0)
Closing fair value	**96.7**	91.8

All owner occupied properties are classified as level 3 within the value hierarchy and are located at Windsor Great Park.

The historic cost of owner occupied properties at 31 March 2019 was £53.4 million (2017/18: £51.9 million).

Information about the valuation and fair value measurement of owner occupied properties is set out in note 20.

20. Fair value measurement of properties

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

Valuation process

The entire portfolio is valued on an annual basis by independent and qualified valuers on a fair value basis in accordance with IFRS 13, the RICS Valuation – Global Standards 2017 and VPGA 1 guidance therein regarding valuation for inclusion in financial statements.

The Central London and Regional portfolios are fully valued on a quarterly basis and a tonal exercise is also undertaken at the half year on the Rural and Central London (residential) properties.

The Crown Estate and its managing agents provide data to the valuers, including current lease and tenant data along with asset specific business plans.

The valuers use this and other inputs including market transactions for similar properties to produce valuations. These valuations and the assumptions they have made are then discussed and reviewed with the asset management team and the members of the executive committee.

The annual valuation is presented to and the process is endorsed by the Audit Committee. A review is also presented to the Board annually.

Valuers' fees are charged on a variety of bases including percentage of the valuation and fixed amounts.

Fair value hierarchy

The following table shows an analysis of the fair values of investment property recognised in the consolidated balance sheet.

All are considered as level 3 in the fair value hierarchy.

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20. Fair value measurement of properties continued

Valuation techniques used to derive level 3 fair values of Group properties

Class of property	Valuation 2018/19 £m	Valuation 2017/18 £m	Predominant valuation technique	Key unobservable inputs	Range	Principal valuer
Central London portfolio:						
Retail	**3,224.8**	3,430.1	Investment	ERV	£33.50–£1,000 psf ITZA	C&W
				Yield	2.22%–6.0%	
Offices	**3,110.7**	2,850.2	Investment	ERV	£20–£125 psf	C&W
				Yield	2.22%–5.75%	
Residential	**700.3**	650.9	Comparable	£ psf	£826–£4,246	JLL
Other Central London	**649.5**	342.8	Investment	Yield	2.29%–12.69%	JLL/C&W
Total Central London	**7,685.3**	7,274.0				
Regional portfolio:						
Retail	**271.7**	312.9	Investment	ERV	£8.50–£259.60 ITZA	JLL
				Yield	4.79%–11.21%	
Retail & Leisure Parks	**1,119.1**	1,086.3	Investment	ERV	£8.72–£105.4 psf	JLL
				Yield	4.64%–6.26%	
Offices	**170.0**	157.2	Investment	ERV	£28–£32.50	JLL
				Yield	5.22%	
Other Regional	**207.8**	202.2	Comparable/ Investment	Yield	4.15%–5.49%	JLL
Total Regional	**1,768.6**	1,758.6				
Rural & Coastal portfolio:						
Agricultural	**936.9**	1,056.3	Comparable/ Investment	Proportion of vacant possession value	50%–100%	Savills/ Strutt & Parker
				Yield	1%–3%	
Coastal	**212.2**	206.6	Investment	Yield	5%–15%	Various
Minerals	**15.7**	16.5	Investment	Yield	5%–20%	Wardell Armstrong
Total Rural & Coastal	**1,164.8**	1,279.4				
Windsor Estate:						
Other	**224.4**	213.9	Comparable/ Investment	Yield	1%–20%	Savills
Energy, Minerals & Infrastructure portfolio:						
Aggregates	**181.7**	175.3	Investment	Yield	7%–10%	Wardell Armstrong
				Annual extraction	c. 20 million tonnes	
Renewables	**1,278.6**	1,103.1	Investment/ DCF	Yield	4.5%–18%	JLL/ Powis Hughes
				Discount rate	8%–25%	
Cables and pipelines	**126.0**	115.7	Investment	Yield	6%–10%	Powis Hughes
Total Energy, Minerals & Infrastructure	**1,586.3**	1,394.1				
Total investment properties	**12,429.4**	11,920.0				
Owner occupied						
Windsor Estate	**96.7**	91.8	Comparable	Proportion of vacant possession value	65%–95%	Savills
Total all portfolios at valuation	**12,526.1**	12,011.8				

Value of properties on a proportionally consolidated basis

	2018/19 £m	2017/18 £m
Investment properties (note 18)	**12,429.4**	11,920.0
Owner occupied properties (note 19)	**96.7**	91.8
Share of investment properties of joint ventures at valuation (note 21)	**930.7**	1,159.4
Other property investments (note 22)	**79.3**	85.4
Total value properties on a proportionally consolidated basis	**13,536.1**	13,256.6

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

Investment Method
This involves estimating the rental value of each lettable unit within the property, making an assessment of void periods and other costs of letting and then capitalising at an appropriate rate.

Hope value has been included where there is future reversionary potential, e.g. conversion of offices back to their original use as residential.

Discounted cash flow (DCF)
This involves the projection of cash flows to which an appropriate market-derived discount rate is applied to establish the present value of the income stream.

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

Specific valuation considerations have been applied to the following classes of property

Wind farms
Each wind farm project has been valued individually using an 'all risk' yield applied to the minimum and budgeted rents, or the actual output, subject to an end allowance where appropriate.

As a cross check, a discounted cash flow of projected revenue streams has been undertaken with appropriate discount rates for differing levels of status in the development programme.

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

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

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

Owner occupied residential property at the Windsor Estate
This has been valued using the Comparable Method with an appropriate discount to the vacant possession value.

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

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

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

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

Valuation techniques used to derive level 3 fair values of Parent properties

The valuation of the Parent properties is as disclosed above except as described below

Class of property	Valuation 2018/19 £m	Valuation 2017/18 £m	Predominant valuation technique	Key unobservable inputs	Range	Principal valuer
Central London portfolio:						
Residential	635.0	650.9	Comparable	£ psf	£826–£4,246	JLL
Regional portfolio:						
Retail & Leisure Parks	901.5	909.9	Investment	ERV	£12–£125 psf	JLL
				Yield	4.2%–6.2%	

21. Investment in joint ventures

The Crown Estate's investment in joint ventures is described below:

Group and Parent

Name of jointly controlled entity	Percentage owned	Formation date	Partner	Property interest
The Gibraltar Limited Partnership[1]	50%	April 2007	Hercules Unit Trust	
Crown Point co-ownership agreement	50%	June 2008	Morley Fund Management	Crown Point Shopping Park, Leeds
Westgate Oxford Alliance Limited Partnership	50%	May 2010	Land Securities Group PLC	Westgate, Oxford
Maple Investment Limited Partnership	50%	November 2010	The Healthcare of Ontario Pension Plan	St James's Gateway, London
Wexford Retail Limited Partnership	50%	August 2014	Gingko Tree Investment Limited	Fosse, Leicester
Fosse Park West Limited Partnership	50%	August 2015	Gingko Tree Investment Limited	Castle Acres, Fosse, Leicester
The St James's Partnership Group:				
St James's Market Haymarket Limited Partnership	50%	September 2013	Oxford Properties Group	2 St James's Market, London
St James's Market Regent Street Limited Partnership	50%	September 2013	Oxford Properties Group	1 St James's Market, London
St James's Market Development Limited	50%	September 2013	Oxford Properties Group	
The St James's Partnership Group 2:				
SJM Four (South Block) Limited Partnership	50%	May 2015	Oxford Properties Group	4 St James's Market, London
St James's Market Development (No. 2) Limited	50%	May 2015	Oxford Properties Group	

1 On 11 June 2018, ownership of Fort Kinnaird transferred to a new joint venture established between Hercules Unit Trust and M&G, with The Crown Estate resuming sole ownership of Gallagher Retail Park, Cheltenham. Both assets were previously owned by The Gibraltar Limited Partnership.

All joint ventures operate in the United Kingdom.

The assets, liabilities, revenues and expenses of The Crown Estate's primary joint ventures at 100% were:

	Central London			Regional				Total
Group and Parent	**Maple LP £m**	**St James's Market Partnership Group £m**	**St James's Market Partnership Group 2 £m**	**Crown Point £m**	**Gibraltar LP £m**	**Westgate Oxford Alliance LP £m**	**Wexford Retail LP[1] £m**	**£m**
Balance sheet at 31 March 2019								
Investment properties at valuation	244.1	474.4	115.4	111.8	–	537.6	378.1	1,861.4
Lease incentives	–	–	–	–	–	(16.7)	(0.5)	(17.2)
Cash	4.9	6.0	2.1	4.8	2.4	14.2	13.4	47.8
Other assets	3.5	20.2	0.9	0.6	0.5	20.3	5.9	51.9
Current liabilities	(7.3)	(0.8)	(3.8)	(5.0)	(4.9)	(12.7)	(25.8)	(60.3)
Non-current liabilities	–	–	–	–	–	(0.1)	–	(0.1)
Net assets	245.2	499.8	114.6	112.2	(2.0)	542.6	371.1	1,883.5
Comprehensive income statement for the year ended 31 March 2019								
Income	8.8	17.2	9.6	7.1	7.5	28.3	16.5	95.0
Expenses	(1.7)	(5.9)	(4.1)	(0.8)	(4.0)	(9.3)	(1.8)	(27.6)
Revenue account profit	7.1	11.3	5.5	6.3	3.5	19.0	14.7	67.4
Profit on revaluation of investment properties	0.2	12.8	(18.9)	(21.4)	–	(51.0)	(37.5)	(115.8)
Profit on disposal of properties	–	–	–	–	(18.8)	0.9	–	(17.9)
Total capital account comprehensive profit	0.2	12.8	(18.9)	(21.4)	(18.8)	(50.1)	(37.5)	(133.7)

	Total Central London	Total Regional	Total
The Crown Estate share	50%	50%	50%
Investment properties at valuation	417.0	513.7	930.7
Cash	6.5	17.4	23.9
Net assets	429.9	511.9	941.8
Revenue	17.8	29.7	47.5
Revenue account profit	11.9	21.8	33.7
Revaluation deficit	(2.9)	(55.0)	(57.9)
Gain on disposal of investment property	–	(9.0)	(9.0)

1 Balances include those for Fosse Park West Limited Partnership.

Group and Parent	Central London Maple LP £m	Princes Street Agreement £m	St James's Market Partnership Group £m	St James's Market Partnership Group 2 £m	Regional Crown Point £m	Gibraltar LP £m	Westgate Oxford Alliance LP £m	Wexford Retail LP[1] £m	Total £m
Balance sheet at 31 March 2018									
Investment properties at valuation	240.3	–	454.0	129.9	133.0	414.0	562.7	384.9	2,318.8
Lease incentives	–	–	–	–	–	(7.2)	(13.6)	(0.4)	(21.2)
Cash	4.5	–	–	1.5	4.3	6.9	10.0	7.0	34.2
Other assets	4.6	–	35.2	1.4	0.5	8.3	18.4	6.3	74.7
Current liabilities	(3.7)	–	(12.7)	(2.6)	(4.0)	(5.7)	(9.2)	(5.2)	(43.1)
Long-term liabilities	–	–	–	–	–	(141.1)	(0.1)	–	(141.2)
Net assets	245.7	–	476.5	130.2	133.8	275.2	568.2	392.6	2,222.2
Comprehensive income statement for the year ended 31 March 2018									
Income	8.7	0.2	28.9	9.9	7.6	21.1	15.8	17.4	109.6
Expenses	(1.8)	–	(14.7)	(4.4)	(0.3)	(4.7)	(5.3)	(1.6)	(32.8)
Revenue account profit	6.9	0.2	14.2	5.5	7.3	16.4	10.5	15.8	76.8
Profit on revaluation of investment properties	0.8	–	32.2	(12.7)	(0.6)	0.9	52.3	(5.6)	67.3
Profit on disposal of investment properties	–	–	–	–	–	–	4.2	–	4.2
Total capital account profit	0.8	–	32.2	(12.7)	(0.6)	0.9	56.5	(5.6)	71.5
Fair value movements on interest rate swaps treated as cash flow hedges reflected in the capital account	–	–	–	–	–	1.9	–	–	1.9
Total capital account comprehensive profit	0.8	–	32.2	(12.7)	(0.6)	2.8	56.5	(5.6)	73.4

	Total Central London	Total Regional	Total
The Crown Estate share	50%	50%	50%
Investment properties at valuation	412.1	747.3	1,159.4
Cash	3.0	14.1	17.1
Net assets	426.2	684.9	1,111.1
Revenue	23.8	31.0	54.8
Revenue account profit	13.4	25.0	38.4
Revaluation gains	10.2	23.5	33.7
Gain on disposal of investment properties	–	2.1	2.1
Fair value movement on interest rate swaps	–	0.9	0.9

1 Balances include those for Fosse Park West Limited Partnership.

Group and Parent

Summary of movement in investment in joint ventures	2018/19 £m	2017/18 £m
Opening balance	**1,111.1**	990.9
Net equity additions	**28.1**	87.4
Share of profit on sale of property	**(9.0)**	2.1
Surplus on revaluation of investment properties	**(57.9)**	33.7
Share of joint venture's fair value movements on interest-rate swaps treated as cash flow hedges	**–**	0.9
Revenue distributions received	**(32.8)**	(34.9)
Capital distributions	**(58.2)**	–
Share of revenue profit	**33.7**	38.4
Transfer to investment properties	**(73.2)**	(7.4)
Closing balance	**941.8**	1,111.1

On 11 June 2018, The Gibraltar Limited Partnership disposed its assets to its joint venture partners as disclosed on page 108. The £140 million loan and related interest rate swaps were also repaid on this date. The swaps were valued at £1.6 million on 31 March 2018.

The investment properties included within the net current assets of jointly controlled entities included above have been valued in accordance with the requirements of IFRS 13 and are classified as level 3 within the value hierarchy.

22. Other property investments

Other property investments comprise a 4.9% share of Lend Lease Retail Partnership, an English Limited Partnership, and a 6.4% equity investment in The Pollen Estate. Lend Lease Retail Partnership provides an equity interest in both Bluewater Shopping Centre, Kent and Touchwood Court Shopping Centre, Solihull. The Pollen Estate owns freehold property in an area of Mayfair to the west of Regent Street in London and the investment is held by a subsidiary of The Crown Estate.

	Group 2018/19 £m	Group 2017/18 £m	Parent 2018/19 £m	Parent 2017/18 £m
Opening balance	85.4	87.3	34.3	40.4
Share of revaluation (deficit)/gain of investment reflected in the consolidated capital account	(6.1)	(1.9)	(8.8)	(6.1)
Share of net assets reflected in the balance sheet	79.3	85.4	25.5	34.3
Share of revenue profit	1.2	1.6	0.9	0.9

The investments are held at the Group's share of fair value. The property investments are classified as level 3 within the value hierarchy as defined within IFRS 13, and there were no transfers between levels during the period.

The basis for valuations are net asset value (NAV) estimates from valuation reports prepared by independent third party valuers, which serve as the primary significant observable inputs. Fair values are derived by discounting NAVs, having regard to their liquidity and other relevant factors.

If the liquidity discount on other property investments increased by 5%, this would result in a fair value loss of £4.0 million. If the NAV of other property investments declined by 5%, the total effect of declines in liquidity discounts and valuations would be £7.7 million.

23. Plant and equipment

Group and Parent – 2018/19	Leasehold right-of-use asset £m	Leasehold improvements £m	Office equipment £m	Plant and machinery £m	Motor vehicles £m	Total £m
Cost – opening balance	15.1	9.7	29.4	2.4	1.6	58.2
Additions	–	–	2.8	0.1	0.1	3.0
Disposals	–	–	(3.5)	(0.1)	(0.1)	(3.7)
Cost – closing balance	15.1	9.7	28.7	2.4	1.6	57.5
Depreciation – opening balance	0.8	0.7	21.2	2.2	1.3	26.2
Charge in the year	1.1	0.5	3.2	0.1	0.2	5.1
Disposals	–	–	(3.5)	(0.1)	(0.1)	(3.7)
Depreciation – closing balance	1.9	1.2	20.9	2.2	1.4	27.6
Net book value at 31 March 2019	13.2	8.5	7.8	0.2	0.2	29.9

Group and Parent – 2017/18 (restated)	£m	£m	£m	£m	£m	£m
Cost – opening balance	15.1	4.9	28.2	2.8	1.5	52.5
Additions	–	4.8	1.3	–	0.1	6.2
Disposals	–	–	(0.1)	(0.4)	–	(0.5)
Cost – closing balance	15.1	9.7	29.4	2.4	1.6	58.2
Depreciation – opening balance	–	–	18.1	2.2	0.8	21.1
Charge in the year	0.8	0.7	3.1	0.1	0.5	5.2
Disposals	–	–	–	(0.1)	–	(0.1)
Depreciation – closing balance	0.8	0.7	21.2	2.2	1.3	26.2
Net book value at 31 March 2018	14.3	9.0	8.2	0.2	0.3	32.0

Included within motor vehicles at 31 March 2019 is £1.0 million (2017/18: £1.0 million) of historic cost and £0.9 million (2017/18: £0.9 million) of accumulated depreciation that relates to motor vehicles that are owned by The Crown Estate. All other motor vehicles are right-of-use assets.

24. Other investments

Other investments comprise antiques and paintings	Group and Parent 2018/19 £m	Group and Parent 2017/18 £m
Opening and closing balance	10.8	10.8

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25. Trade and other receivables

	Group 2018/19 £m	Group 2017/18 (Restated) £m	Parent 2018/19 £m	Parent 2017/18 (Restated) £m
Amounts falling due within one year:				
Trade receivables	55.4	33.5	53.8	32.7
Other financial assets	0.1	0.1	0.1	0.1
Amounts owed by subsidiary undertakings	–	–	339.1	232.8
Other receivables	16.7	17.5	15.8	17.3
Prepayments	0.9	0.8	0.9	0.8
Investment properties treated as finance leases (note 28)	5.0	3.9	5.0	3.9
Accrued income from leases	21.3	27.9	18.6	19.0
Accrued income from revenue	1.2	0.2	1.2	0.2
Total receivables falling due within one year	100.6	83.9	434.5	306.8
Amounts falling due after more than one year:				
Other financial assets	2.3	2.4	2.3	2.4
Investment properties treated as finance leases (note 28)	290.3	262.9	290.3	262.9
Other receivables	41.3	52.2	41.3	52.2
Total receivables falling due after one year	333.9	317.5	333.9	317.5

Trade and other receivables are shown after deducting the provision for expected credit losses of £4.2 million (2017/18: £6.0 million). The trade receivable impairment reflects the application of The Crown Estate's provisioning policy in respect of bad and doubtful receivables, as described in note 14. The carrying amount of the trade and other receivables approximates to their fair value. All accrued revenue as at 31 March 2019 has been or will be invoiced within four months of year end.

26. Payables and deferred income

	Group 2018/19 £m	Group 2017/18 (Restated) £m	Parent 2018/19 £m	Parent 2017/18 (Restated) £m
Amounts falling due within one year:				
Trade payables	4.5	2.7	3.8	2.7
Rents received in advance	74.1	69.1	72.0	68.7
Deferred income from revenue	3.5	3.7	3.5	3.7
Taxes and social security	27.4	16.4	27.3	16.4
Other payables	15.2	17.3	15.5	17.2
Consolidated Fund	13.5	9.4	13.5	9.4
Accruals	38.9	37.5	37.1	31.5
Lease liabilities	1.7	1.0	1.7	1.0
Total payables and deferred income falling due within one year	178.8	157.1	174.4	150.6
Amounts falling due after more than one year:				
Obligations under finance leases	18.7	19.7	18.7	19.7
Total payables and deferred income falling due after one year	18.7	19.7	18.7	19.7

27. Provisions

	Group and Parent 2018/19 £m	Group and Parent 2017/18 £m
Opening balance	–	0.4
Payments in year	(2.2)	(0.4)
Expenses recorded in the capital account	2.9	–
Expenses recorded in the revenue account	0.4	–
Closing balance	1.1	–

In 2016/17 The Crown Estate sold properties in an exclusive residential scheme. Since the sales, a number of defects have been identified with three of the properties which require major works to remedy, rendering the properties uninhabitable for the duration of the work. The Crown Estate has made compensation payments of £525,000, £737,000 and £985,000 to refund the owners for direct expenditure they have incurred and to reflect their inconvenience. All costs have been charged to the income statement in the current year and, with the exception of the repair costs of £1.1 million, all expenses have been settled.

28. Leasing

Operating leases with customers

The Crown Estate leases out the vast majority of its investment properties under operating leases for average lease terms of 46 years to expiry. The Crown Estate has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. The undiscounted future aggregate minimum rentals, excluding contingent rents receivable under non-cancellable leases are as follows:

	Group 2018/19 £m	Group 2017/18 (Restated) £m	Parent 2018/19 £m	Parent 2017/18 (Restated) £m
Less than one year	307.7	315.6	298.8	308.7
Between one and five years	949.6	958.1	917.8	930.0
More than five years	3,757.3	3,623.2	3,705.4	3,579.3
Total operating leases with tenants	**5,014.6**	4,896.9	**4,922.0**	4,818.0

Contingent rents receivable were £34.7 million as at 31 March 2019 (2017/18: £39.8 million).

Finance leases with customers

Certain of The Crown Estate's long lease arrangements include elements of ongoing income in addition to ground rent. The Crown Estate has considered the lease as a whole, and where the lease has been determined to be a finance lease, the future lease income is treated as a finance lease receivable. Amounts receivable under non-cancellable finance leases are as follows:

	Group and Parent 2018/19 £m	Group and Parent 2017/18 £m
Less than one year	5.0	3.9
Between one and five years	20.1	17.5
More than five years	877.7	805.6
Total undiscounted lease assets at 31 March	**902.8**	827.0
Future finance lease income	(758.9)	(697.5)
Unguaranteed residual value	151.4	137.3
Investment properties disclosed as finance leases at 31 March	**295.3**	266.8
Disclosed as:		
Current (note 25)	5.0	3.9
Non-current (note 25)	290.3	262.9

Finance lease obligations

Finance lease liabilities are payable as follows:

	Group and Parent 2018/19 £m	Group and Parent 2017/18 £m
Less than one year	1.7	1.1
Between one and five years	6.9	5.5
More than five years	59.9	62.8
Total undiscounted lease liabilities at 31 March	**68.5**	69.4
Future finance charges	(48.1)	(48.7)
Present value of lease liabilities at 31 March	**20.4**	20.7
Disclosed as:		
Current	1.7	1.0
Non-current	18.7	19.7

The Crown Estate leases head office space from a joint venture and leases various motor vehicles for operations at Windsor Great Park.

Amounts recognised in Revenue account Income Statement

	Group and Parent 2018/19 £m	Group and Parent 2017/18 £m
Income from sub-leasing right-of-use assets	1.0	1.5
Contingent rents receivable	34.7	39.8
Variable lease payments not included in the measurement of lease liabilities	(2.0)	(2.2)
Interest on lease liabilities	(0.4)	(0.5)

29. Capital commitments

At 31 March 2019, The Crown Estate had committed to make capital expenditure of £307.0 million (2017/18: £288.0 million) and had authorised additional expenditure of £99.0 million (2017/18: £91.8 million).

30. Contingent liabilities

The Crown Estate is subject to various litigation, claims and warranties arising in the ordinary course of business. Based on the information currently available, it is not expected the resolution of these matters, individually or in aggregate, will lead to any material liabilities.

31. Related party transactions

Joint ventures

The transactions outlined below are between the group and its joint ventures, further details of which are given in note 21.

The Crown Estate occupies space at 1 St James's Market, a property owned by St James's Market Regent Street LP, a joint venture. Rental payments of £1.3 million (2017/18: £nil) were made during year and the outstanding payable to the joint venture is £nil (2017/18: £nil) as at 31 March 2019.

	Group 2018/19 £m	Group 2017/18 £m	**Parent 2018/19 £m**	Parent 2017/18 £m
Management fees receivable	**3.5**	3.3	**2.7**	–
Charges from joint ventures	**(1.8)**	(1.6)	**(1.8)**	(1.6)

Transactions with subsidiaries

Details of transactions between The Crown Estate and other related parties in the normal course of business are disclosed below.

	2018/19 £m	2017/18 £m
Management fees paid	**3.1**	2.9

Details of amounts receivable from subsidiaries are outlined in note 25.

Key management personnel

Members of the executive committee and the Board are considered to be The Crown Estate's key management personnel. Details of their remuneration are disclosed in the Remuneration report.

Robin Budenberg, Chairman, is London Chairman of Centerview Partners UK LLP, a sub tenant of The Crown Estate.

32. Third party deposits

At 31 March 2019, The Crown Estate held £41.7 million (2017/18: £33.5 million) on deposit on behalf of third parties.

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33. Investments

The Crown Estate has the following wholly owned subsidiary undertakings, all of which are registered at 1 St James's Market, London SW1Y 4AH. Unless otherwise stated the principal activity of the investments is property investment and management.

Purple Holdco Limited – intermediate holding company

Purple Investment Management LLP – asset management advice

Purple Investment GP Limited

TCE Purple Investment, LP

Anther GP Limited

Anther Partners LP

TCE Quadrant 4 LP

TCE Quadrant 4 GP Limited

Shoemaker GP Limited

Shoemaker LP

Shoemaker Nominee Limited

Urbanlease Property Management Limited – dormant property management company

The Crown Estate has a 50% interest in the following joint ventures. Unless otherwise noted, they are all registered at 1 St James's Market, London SW1Y 4AH:

Maple Investment GP Limited

Maple Investment LP

Maple Nominee Limited

Wexford Retail GP Limited

Wexford Retail LP

Wexford Retail Nominee Limited

Fosse Park West GP Limited

Fosse Park West LP

St James's Market Haymarket GP Limited

St James's Market Haymarket LP

St James's Market Regent Street GP Limited

St James's Market Regent Street LP

SJM Four (South Block) GP Limited

SJM Four (South Block) LP

St James's Market Development Limited

St James's Market Development (No.2) Limited

Gibraltar General Partner Limited[1]

The Gibraltar Limited Partnership[1]

Gibraltar Nominees Limited[1]

Westgate Oxford Alliance GP Limited[2]

Westgate Oxford Alliance Limited Partnership[2]

Westgate Oxford Alliance Nominee No.1 Limited[2]

Westgate Oxford Alliance Nominee No.2 Limited[2]

1 Registered office – York House, 45 Seymour Street, London W1H 7LX.
2 Registered office – 100 Victoria Street, London SW1E 5JL.

34. Issue of accounts

On 6 June 2019, the financial statements were approved by the Board prior to certification by the Comptroller and Auditor General on 14 June 2019. On this date, the financial statements are deemed to be authorised for issue. Post balance sheet events were considered up to this date.

35. Events after the balance sheet date

There were no adjusting events nor were there any events requiring disclosure as being of material interest to users of the financial statements.

36. Changes to accounting policies

During the year ended 31 March 2019, The Crown Estate adopted IFRS 9 (Financial Instruments), IFRS 15 (Revenue from Contracts with Customers), the amendment to IAS 40 (Investment Properties) and early adopted IFRS 16 (Leases) with effect from 1 April 2018.

IFRS 16 (Leases)

IFRS 16 was brought into effect on 1 January 2019 and replaces IAS 17 (Leases). The Crown Estate has elected to early adopt IFRS 16 and apply the full retrospective approach. The definition of a lease has been updated, and is as disclosed in note 2h. In respect of lessors, IFRS 16 does not require any substantial changes except for the treatment of variable lease payments and the separation of non-lease components (which are then subject to IFRS 15).

In respect of lessees, IFRS 16 removes the distinction between operating and finance leases and introduces a new accounting term; the 'right-of-use asset'. In addition there are new requirements for variable lease payments and the separation of non-lease components.

There has been no retrospective impact on earnings or retained earnings as a result of adopting IFRS 16. The impact on the reported results and position is described below.

a As a lessor

In adopting IFRS 16, The Crown Estate has completed a detailed review of its long lease arrangements against the provisions of the new standard, brought into consideration market practice and actual lease renewal rates in the period since IAS 17 was adopted. Following the assessment The Crown Estate concluded it would be most appropriate to account for long leases as finance as opposed to operating leases. As a result of this change in policy, properties sold on a long lease are de-recognised from the balance sheet at the date of disposal, whereas previously the premia received on the grant of the long lease were deferred over the life of the lease. Where these leases contain an element of ongoing income in excess of ground rent, the net investment is recorded as finance lease receivable.

The Crown Estate has not made any other adjustments to lease income or receivables.

b As a lessee

As a lessee, The Crown Estate previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset. Under IFRS 16, The Crown Estate recognises right-of-use assets and lease liabilities for all leases, subject to a few exceptions such as low value leases and leases where the duration is less than one year. Rent free accruals for The Crown Estate head office lease have been released as a result of adopting IFRS 16.

For leases that were not covered by the recognition exemptions under IFRS 16, The Crown Estate has recognised right-of-use assets and lease liabilities measured in accordance with IFRS 16. The Crown Estate has also tested right-of-use assets for impairment.

IFRS 9 (Financial Instruments)

IFRS 9 was brought into effect on 1 January 2018 and replaces IAS 39. The Crown Estate holds trade receivables reflecting contractual arrangements. IFRS 9 allows such assets to be measured at their transaction price if the finance element is not material. Consequently the classification and measurement required by IFRS 9 is not different from that required by IAS 39.

The standard introduces a new 'expected credit loss' model, which requires that the provision for doubtful debts is recognised based on the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. The Crown Estate has prepared its bad debt provision on this basis at 31 March 2019. The majority of The Crown Estate's receivable balances relate to accrued income on lease incentives – the provisioning for which has historically been prepared taking a long-term view of potential credit losses. Resultantly, the effect of implementing the credit loss model is not material.

As the Crown Estate Act 1961 effectively prevents The Crown Estate from hedging or being exposed to interest rate or foreign exchange risk, the introduction of IFRS 9 has not otherwise affected the reported financial results or position.

The implementation of IFRS 9 has led to enhanced disclosure of bad debts and credit risk controls.

IFRS 15 (Revenue from Contracts with Customers)

IFRS 15 was brought into effect on 1 January 2018 and replaces IAS 18 (Revenue) and IAS 11 (Construction Contracts). IFRS 15 does not apply to lease contracts subject to IFRS 16, which constitute the majority of The Crown Estate's revenue.

The Crown Estate has carried out an assessment of the basis on which revenues relating to service charges, royalties, licences and visitor services at Windsor Great Park were previously recognised and the requirements of IFRS 15. The previous pattern of revenue recognition is consistent with the requirements of IFRS 15.

Amendment to IAS 40 (Investment Properties)

The amendment to IAS 40 is effective for accounting periods beginning after 31 March 2018 and clarifies criteria for classification of assets to and from investment properties. This amendment has not affected The Crown Estate's accounting policies.

Financials

Notes to the Group and Parent consolidated financial statements continued

36. Changes to accounting policies continued

Impact on the financial statements

I. Consolidated balance sheets

1 April 2017	As previously reported £m	Adjustments to the long lease accounting (36a) £m	Adjustments to include right-of-use assets (36b) £m	As restated £m
Investment property	12,689.2	(1,808.3)	–	10,880.9
Receivables due after one year	58.0	232.9	–	290.9
Receivables due within one year	53.3	3.9	–	57.2
Plant and equipment	16.0	–	15.4	31.4
Other assets	2,058.7	–	–	2,058.7
Total assets	14,875.2	(1,571.5)	15.4	13,319.1
Current liabilities	(179.7)	15.3	(0.2)	(164.6)
Provisions	(0.4)	–	–	(0.4)
Non-current liabilities	(1,560.6)	1,556.2	(15.2)	(19.6)
Total liabilities	(1,740.7)	1,571.5	(15.4)	(184.6)
Total equity	13,134.5	–	–	13,134.5

31 March 2018	As previously reported £m	Adjustments to the long lease accounting (36a) £m	Adjustments to include right-of-use assets (36b) £m	As restated £m
Investment property	13,538.6	(1,899.9)	–	11,638.7
Receivables due after one year	54.6	262.9	–	317.5
Receivables due within one year	80.0	3.9	–	83.9
Plant and equipment	17.5	–	14.5	32.0
Other assets	2,195.4	–	–	2,195.4
Total assets	15,886.1	(1,633.1)	14.5	14,267.5
Current liabilities	(173.9)	16.3	0.5	(157.1)
Non-current liabilities	(1,621.5)	1,616.8	(15.0)	(19.7)
Total liabilities	(1,795.4)	1,633.1	(14.5)	(176.8)
Total equity	14,090.7	–	–	14,090.7

II. Consolidated statements of comprehensive income

Consolidated revenue account for the year ended 31 March 2018	As previously reported £m	Adjustments to the long lease accounting (36a) £m	Adjustments to include right-of-use assets (36b) £m	As restated £m
Revenue	452.1	–	–	452.1
Costs	(120.4)	–	1.4	(119.0)
Operating surplus	331.7	–	1.4	333.1
Net finance income	3.2	–	(0.5)	2.7
Depreciation on fixed assets	(4.3)	–	(0.9)	(5.2)
Other items in revenue account profit (net)	(1.2)	–	–	(1.2)
Net consolidated revenue account profit	329.4	–	–	329.4

Consolidated capital account for the year ended 31 March 2018	As previously reported £m	Adjustments to the long lease accounting (36a) £m	Adjustments to include right-of-use assets (36a) £m	As restated £m
Revenue	17.1	(17.1)	–	–
Charge from revenue for salary costs	(10.8)	–	–	(10.8)
Net revaluation gains in investment property (including profits on disposal)	868.5	17.1	–	885.6
Other items in the capital account	77.4	–	–	77.4
Comprehensive income of the capital account for the period	952.2	–	–	952.2
Gain/(deficit) on revaluation of owner occupied properties	1.5	–	–	1.5
Share of joint venture fair value movements on interest rate swaps treated as cash flow hedges	0.9	–	–	0.9
Total consolidated comprehensive capital account profit	954.6	–	–	954.6

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III. Consolidated statement of cash flows

For the year ended 31 March 2018	As previously reported £m	Adjustments to the long lease accounting (36a) £m	Adjustments to include right-of-use assets (36b) £m	As restated £m
Operating surplus	331.7	–	1.4	333.1
Adjustments for:				
Increase in operating payables	3.7	–	(1.2)	2.5
Other operating cash flows	14.8	–	–	14.8
Net cash inflow from operating activities	350.2	–	0.2	350.4
Net cash inflow from investing activities	48.6	–	–	48.6
Parliamentary supply finance	2.3	–	–	2.3
Finance lease payments	–	–	(0.2)	(0.2)
Net cash inflow from financing activities	2.3	–	(0.2)	2.1
Net increase in cash and cash equivalents before consolidated fund payment	401.1	–	–	401.1
Consolidated fund payment	(339.8)	–	–	(339.8)
Increase in cash in year after consolidated fund payment	61.3	–	–	61.3

IV. Parent balance sheets

1 April 2017	As previously reported £m	Adjustments to the long lease accounting (36a) £m	Adjustments to include right-of-use assets (36b) £m	As restated £m
Investment property	12,557.8	(1,808.3)	–	10,749.5
Receivables due after one year	58.0	232.9	–	290.9
Receivables due within one year	235.4	3.9	–	239.3
Plant and equipment	16.0	–	15.4	31.4
Other assets	2,010.3	–	–	2,010.3
Total assets	14,877.5	(1,571.5)	15.4	13,321.4
Current liabilities	(177.5)	15.3	(0.2)	(162.4)
Provisions	(0.4)	–	–	(0.4)
Non-current liabilities	(1,560.6)	1,556.2	(15.2)	(19.6)
Total liabilities	(1,738.5)	1,571.5	(15.4)	(182.4)
Total equity	13,139.0	–	–	13,139.0

31 March 2018	As previously reported £m	Adjustments to the long lease accounting (36a) £m	Adjustments to include right-of-use assets (36b) £m	As restated £m
Investment property	13,362.3	(1,899.9)	–	11,462.4
Receivables due after one year	54.6	262.9	–	317.5
Receivables due within one year	302.9	3.9	–	306.8
Plant and equipment	17.5	–	14.5	32.0
Other assets	2,139.9	–	–	2,139.9
Total assets	15,877.2	(1,633.1)	14.5	14,258.6
Current liabilities	(167.4)	16.3	0.5	(150.6)
Non-current liabilities	(1,621.5)	1,616.8	(15.0)	(19.7)
Total liabilities	(1,788.9)	1,633.1	(14.5)	(170.3)
Total equity	14,088.3	–	–	14,088.3

V. Parent statement of cash flows

For the year ended 31 March 2018	As previously reported £m	Adjustments to the long lease accounting (36a) £m	Adjustments to include right-of-use assets (36b) £m	As restated £m
Operating surplus	328.8	–	1.4	330.2
Adjustments for:				
Decrease in payables	(0.4)	–	(1.2)	(1.6)
Other operating cash flows	(23.2)	–	–	(23.2)
Net cash inflow from operating activities	305.2	–	0.2	305.4
Net cash inflow from investing activities	90.7	–	–	90.7
Parliamentary supply finance	2.3	–	–	2.3
Finance lease payments	–	–	(0.2)	(0.2)
Net cash inflow from financing activities	2.3	–	(0.2)	2.1
Net increase in cash and cash equivalents before consolidated fund payment	398.2	–	–	398.2
Consolidated fund payment	(339.8)	–	–	(339.8)
Increase in cash in year after consolidated fund payment	58.4	–	–	58.4

Financials
Supplementary disclosures (unaudited)

Summary consolidated income statements on a proportionally consolidated basis

The table below is unaudited and does not form part of the consolidated primary statements or notes thereto. It presents the results of the continuing operations of the Group, with its share of the results of jointly controlled interests on a line-by-line, i.e. proportional basis. The revenue and capital profit are the same as presented in the Consolidated Revenue and Capital accounts.

		2018/19			2017/18 (Restated)	
Consolidated revenue account	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m
Revenue before service charges	441.0	47.5	488.5	421.9	54.8	476.7
Service charge income	27.0	–	27.0	30.2	–	30.2
Revenue – as reported	468.0	47.5	515.5	452.1	54.8	506.9
Direct costs (including service charge costs)	(88.2)	(13.8)	(102.0)	(90.2)	(14.5)	(104.7)
Gross surplus	379.8	33.7	413.5	361.9	40.3	402.2
Indirect costs	(30.7)	–	(30.7)	(28.8)	–	(28.8)
Operating surplus	349.1	33.7	382.8	333.1	40.3	373.4
Net investment revenue	5.0	–	5.0	2.7	(1.9)	0.8
Share of revenue profit from joint ventures	33.7	(33.7)	–	38.4	(38.4)	–
Share of revenue profit from other property investments	1.2	–	1.2	1.6	–	1.6
Depreciation of tangible fixed assets	(5.1)	–	(5.1)	(5.2)	–	(5.2)
Net consolidated operating profit before Treasury agreements and Statutory transfers	383.9	–	383.9	370.6	–	370.6
Treasury agreements	(32.9)	–	(32.9)	(31.8)	–	(31.8)
Statutory transfers	(9.8)	–	(9.8)	(11.7)	–	(11.7)
Parliamentary Supply finance	2.3	–	2.3	2.3	–	2.3
Net consolidated revenue account profit from continuing operations	343.5	–	343.5	329.4	–	329.4

		2018/19			2017/18 (Restated)	
Consolidated capital account	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m
Charge from revenue for salary costs	(10.9)	–	(10.9)	(10.8)	–	(10.8)
Revaluation gains including profit on disposal	275.2	(66.9)	208.3	885.6	35.8	921.4
Share of revaluation gains and profit on disposal in joint ventures	(66.9)	66.9	–	35.8	(35.8)	–
Share of revaluation (loss)/gain in other property investments	(6.1)	–	(6.1)	(1.9)	–	(1.9)
Consolidated capital account profit before Treasury agreements and Statutory transfers	191.3	–	191.3	908.7	–	908.7
Treasury agreements	32.9	–	32.9	31.8	–	31.8
Statutory transfers	9.8	–	9.8	11.7	–	11.7
Consolidated capital account profit	234.0	–	234.0	952.2	–	952.2

Summary balance sheet on a proportionally consolidated basis

The tables below are unaudited and do not form part of the consolidated primary statements or notes thereto. They present the composition of the net assets of the Group, with its share of the net assets of jointly controlled interests on a line-by-line, i.e. proportional basis.

		2018/19			2017/18 (Restated)	
Balance sheet	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m
Investment properties – as reported	12,121.6	922.1	13,043.7	11,669.2	1,148.8	12,818.0
Investment properties treated as finance leases	295.3	–	295.3	236.3	–	236.3
Owner occupied properties	96.7	–	96.7	91.8	–	91.8
Other property investments	79.3	–	79.3	85.4	–	85.4
Total properties	12,592.9	922.1	13,515.0	12,082.7	1,148.8	13,231.5
Investment in jointly controlled entities	941.8	(941.8)	–	1,111.1	(1,111.1)	–
Cash	802.8	23.9	826.7	886.9	17.1	904.0
Other assets	190.0	25.9	215.9	186.8	37.4	224.2
Current liabilities	(179.9)	(30.1)	(210.0)	(157.1)	(21.6)	(178.7)
Payables – amounts falling due after more than one year	(18.7)	–	(18.7)	(19.7)	(70.6)	(90.3)
Net assets	14,328.9	–	14,328.9	14,090.7	–	14,090.7

Summary balance sheet on a proportionally consolidated basis continued

Properties at valuation	2018/19 Group £m	2018/19 Share of jointly controlled entities £m	2018/19 Proportionally consolidated £m	2017/18 (Restated) Group £m	2017/18 (Restated) Share of jointly controlled entities £m	2017/18 (Restated) Proportionally consolidated £m
Investment properties – as reported	**12,121.6**	**922.1**	**13,043.7**	11,669.2	1,148.8	12,818.0
Investment properties treated as finance leases	**295.3**	**–**	**295.3**	236.3	–	236.3
Head lease liabilities	**(2.5)**	**–**	**(2.5)**	(2.5)	–	(2.5)
Lease incentives	**15.0**	**8.6**	**23.6**	17.0	10.6	27.6
Market value of investment properties	**12,429.4**	**930.7**	**13,360.1**	11,920.0	1,159.4	13,079.4
Owner occupied properties	**96.7**	**–**	**96.7**	91.8	–	91.8
Joint venture properties	**930.7**	**(930.7)**	**–**	1,159.4	(1,159.4)	–
Other property investments	**79.3**	**–**	**79.3**	85.4	–	85.4
Total properties at valuation	**13,536.1**	**–**	**13,536.1**	13,256.6	–	13,256.6

Ten-year record (unaudited)

Based on the Financial Statements for the year ended 31 March

Income account	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 (Restated) £m	**2019 £m**
Revenue (excluding service charge income)	299.7	306.8	314.2	332.2	350.8	373.1	395.1	419.6	421.9	**441.0**
Direct operating costs (including net service charge expense)	(52.9)	(42.5)	(41.8)	(49.0)	(45.9)	(51.1)	(54.2)	(53.4)	(60.0)	**(61.2)**
Gross surplus	246.8	264.3	272.4	283.2	304.9	322.0	340.9	366.2	361.9	**379.8**
Administrative expenses	(18.5)	(17.1)	(18.4)	(19.8)	(20.0)	(20.9)	(23.0)	(27.7)	(28.8)	**(30.7)**
Net revenue account profit	**210.7**	**230.9**	**240.2**	**252.6**	**267.1**	**285.1**	**304.1**	**328.8**	**329.4**	**343.5**
Consolidated Fund payment	210.0	231.0	240.2	251.8	266.2	285.1	304.1	328.8	329.4	**343.5**
Balance sheet										
Investment, development and owner occupied properties	6,696.4	7,552.3	8,118.4	8,574.7	9,858.7	11,376.5	12,448.8	12,824.9	11,730.5	**12,218.3**
Non-current investment property assets held for sale	135.1	17.5	22.5	105.5	56.5	–	–	–	–	**–**
Investment in joint ventures	212.7	265.0	266.9	275.3	396.3	646.8	820.4	990.9	1,111.1	**941.8**
Other property investments	30.0	33.1	34.0	35.7	35.8	79.0	85.6	87.3	85.4	**79.3**
Other plant and equipment	8.3	7.1	7.7	7.6	6.5	11.8	11.8	16.0	32.0	**29.9**
Other investments	4.9	5.3	5.3	5.4	10.2	10.4	10.4	10.8	10.8	**10.8**
Receivables due after one year	13.3	21.4	23.7	29.3	39.8	57.4	64.0	58.0	317.5	**333.9**
Pension asset	–	2.3	2.8	6.8	5.0	5.3	6.0	8.4	9.4	**10.1**
Current assets (excluding assets held for sale)	480.6	311.0	608.7	610.6	571.3	591.7	958.4	878.9	970.8	**903.4**
Current liabilities	(104.6)	(102.3)	(121.3)	(115.5)	(110.9)	(136.1)	(154.7)	(180.1)	(157.1)	**(179.9)**
Non-current liabilities	(837.1)	(859.9)	(914.2)	(920.5)	(992.5)	(1,181.1)	(1,371.1)	(1,560.6)	(19.7)	**(18.7)**
Capital and reserves	**6,639.6**	**7,252.8**	**8,054.5**	**8,614.9**	**9,876.7**	**11,461.7**	**12,879.6**	**13,134.5**	**14,090.7**	**14,328.9**

Glossary

Bespoke benchmark
An MSCI benchmark based upon the Annual Index weighted to reflect our average capital employed at March 2019. This excludes our ownership of certain non-commercial assets including the Windsor Estate.

Book value
The amount at which assets and liabilities are reported in the financial statements.

Capital employed
The capital value of an asset at the beginning of a period plus net capital invested over the period.

Capital value
The net assets of The Crown Estate held as capital for Her Majesty and Her Successors.

Carbon intensity
The amount of carbon dioxide produced per square metre of floor space.

Consolidated Fund
The UK Government's general bank account held at the Bank of England. Taxation and other monies paid to the Treasury are paid into this fund.

CVA
Company Voluntary Arrangement – a legally binding agreement with a company's creditors to restructure its liabilities, including future lease liabilities.

Development pipeline
Development projects under construction or planned.

Direct expenditure
Expenditure incurred that relates directly to the operation of the properties from which revenue is received.

Equivalent yield
The constant capitalisation rate applied to all cash flows, that is, the internal rate of return from an investment property reflecting reversions to current market rent.

ERV
The estimated market rental value of lettable space.

Finance lease
A lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee.

Head lease
A leasehold interest held directly from the freeholder and subject to one or more underleases in the whole, or part of the property.

IFRS
International Financial Reporting Standards.

Incident Severity Score
The Incident Severity Score is a unique measure which aggregates injuries and serious near misses that occur on The Crown Estate's property portfolio and as a result of our business. This includes incidents involving members of the public, a Crown Estate employee or an employee of our managing agents and their supply chain. The measure excludes construction projects and injuries sustained that were not in connection with our business.

Every incident is scored depending on whether the activity is directly or indirectly managed by TCE, and its severity or potential severity (in the case of a serious near miss).

Initial yield
The initial net income at the date of purchase expressed as a percentage of the gross purchase price including the costs of purchase.

Integrated annual report
A concise communication about how an organisation creates value in the short, medium and long term.

ITZA
'In terms of Zone A'. A method for measuring retail space on a like-for-like basis.

Lease incentive
Any incentive offered to occupiers to enter into a lease. This includes an initial rent free period or a cash contribution to fit out.

Lease premium
The price paid for the purchase of a leasehold interest.

Market value
The estimated amount for which a property would exchange on the date of valuation, between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing, net of purchasers' costs, wherein the parties have each acted knowledgeably, prudently and without compulsion.

Material issues
An issue that would significantly influence our business.

MSCI
MSCI real estate benchmark which produces independent benchmark of property returns, formerly IPD.

Net revenue profit
Profit payable to the Treasury. Also referred to as net revenue surplus.

Open A1 planning consent
A planning consent which permits occupation within the A1 Shops use class under the Town and Country Planning (use classes) Order 1987 without any restriction as opposed to an A1 use restricted to bulky goods, such as furniture or white goods.

Operating lease
Any lease that is not a finance lease.

Parliamentary supply finance
Monies provided by Parliament in respect of Board Members' salaries and the expense of their Office.

Pre-let
An agreement for a letting to take effect at a future date, often upon completion of a development that is proposed or under construction at the time of the agreement.

Proportionally consolidated
The results and share of joint venture assets and liabilities are presented on a line-by-line basis rather than as a single figure in the consolidated statements of Comprehensive Income and Balance sheets.

Public realm
Publicly owned streets, pathways and rights of way.

Red Book
Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

Reportable incidents (RIDDOR)
Any incidents that are reportable to the Health and Safety Executive (HSE) under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

Revaluation surplus
An increase in the fair value of a property over its book value.

TCE
The Crown Estate.

Total Contribution
How we value the economic, social and environmental contribution that our business delivers to the UK.

Total return
Capital growth plus property net income as a percentage of property capital employed.

Vacancy rate
The ERV of voids (excluding those held for development) as a percentage of the total ERV of the portfolio.

Void
Unoccupied and unlet space.

Workplace injuries
This includes all injuries sustained by an employee at work, caused by undertaking a Crown Estate work activity. This includes minor injuries and more serious injuries, including those reportable under RIDDOR.

Page 03
Empowering offshore wind image:
Credit: Chris James

Back cover images:
Top: Preparing a wind turbine generator for use.

Bottom left: Foresters at Windsor Great Park.

Bottom right: A family enjoys Rushden Lakes.

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Thank you.

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