Crown Estate Scotland
Oighreachd a' Chrùin Alba

Graeme Dey MSP
Convener
Environment, Climate Change & Land Reform Committee
The Scottish Parliament
Edinburgh
EH99 1SP

14 May 2018

Dear Convener

Environment, Climate Change & Land Reform Committee session, Tuesday 17 April 2018

Thank you for the invitation to give evidence to Members on the Scottish Crown Estate Bill on 17th April. I hope that the Committee found the evidence informative and useful.

Please find below:

- Clarification of position on wording in section 7(2) of the Scottish Crown Estate Bill
- Further details on transfers from revenue to capital (9%)

Wording in section 7(2) of the Scottish Crown Estate Bill

Enhancing value inherently means managing the estate in a sustainable way so revenue and overall capital value can be enhanced. We work in a way that contributes to Scotland's overall prosperity – that includes enhancing natural resources, growing our low carbon economy and building social capital. This is reflected in our corporate plan and these factors are always taken in to consideration when making business decisions.

However, being subject to a statutory obligation to contribute to the promotion or the improvement of economic, social and environmental wellbeing alongside the requirement to enhance financial value could potentially affect the ability of the business to raise and reinvest capital and lease / licence assets in a way that ensures long-term sustainable financial growth. In turn, this could reduce the amount that is returned by the business to the Scottish Consolidated Fund.

As currently worded, the manager is directed to take due account of the requirements of sustainable development but has flexibility to balance this with the requirement for enhancing the value of the assets and the income generated from them.

Transfers from revenue to capital

There will always be a requirement for Crown Estate Scotland to have a level of capital expenditure in any given year. To contribute to this, a transfer from revenue to capital (normally calculated as 9% of gross turnover for the previous year less depreciation charges) is permitted.

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As 2017/18 is the first year of trading for Crown Estate Scotland - and the turnover for the Scotland portfolio 2016/17 was affected by accounting provisions on the transfer of the management of the assets from The Crown Estate - the actual 2017/18 gross turnover will be used to calculate the amount to be retained from gross revenue in 2017/18, and the previous year's figures will be used for 2018/19 onwards.

Mines Moiety, which is the income and expenditure derived from minerals, is recognised in the revenue account. To take account of the depletion of capital (as a result of the activity), the net income is apportioned 50% to revenue account and 50% to capital account.

Below is a worked example to illustrate the transfer from revenue to capital and the amounts may differ from those published in the accounts.

Example of transfer from revenue to capital

	Year 2018/19 £m	*Notes*
Total Turnover	16.4	Assume turnover for the previous year, 2017/18 is £16m
Direct expenditure	(3.6)	
Gross Contribution	12.8	Assume this includes Mines Moiety net contribution of £0.6m
Indirect expenditure	(3.9)	Assume depreciation charges included of £0.1m
Net profit before transfers	8.9	
Transfers to capital *	(1.6)	
Net profit after transfers	7.3	
* Transfers to capital comprises:		
Mines Moiety - 50% of net contribution	0.3	0.5 x 0.6m
9% of gross turnover from previous year	1.4	0.09 x 16m
Less depreciation already provided for	(0.1)	
	1.6	

Yours sincerely

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