Sustaining a resilient business

THE CROWN ESTATE

Who we are

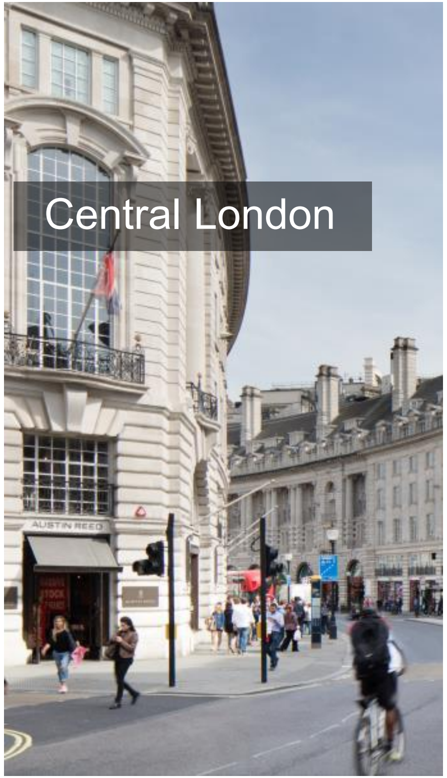
The Crown Estate is an independent commercial business created by Act of Parliament

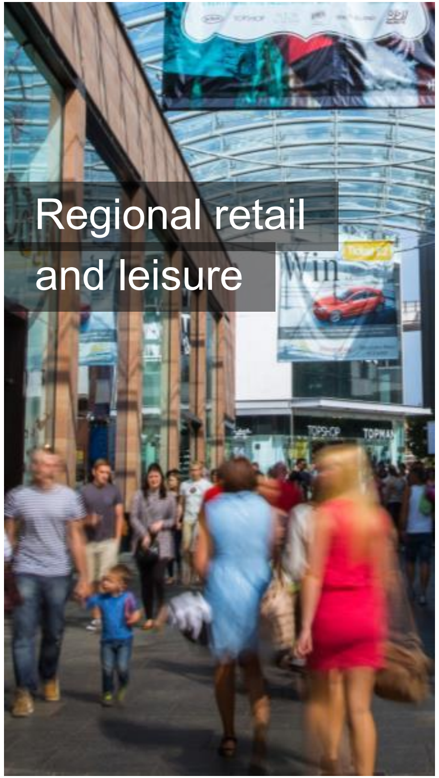
Net profit in 2015/16
£304.1 million

Our capital value is
£12.9 billion

Conscious commercialism defines our approach to business

The core sectors we focus on where we can outperform the market through our expertise and critical mass

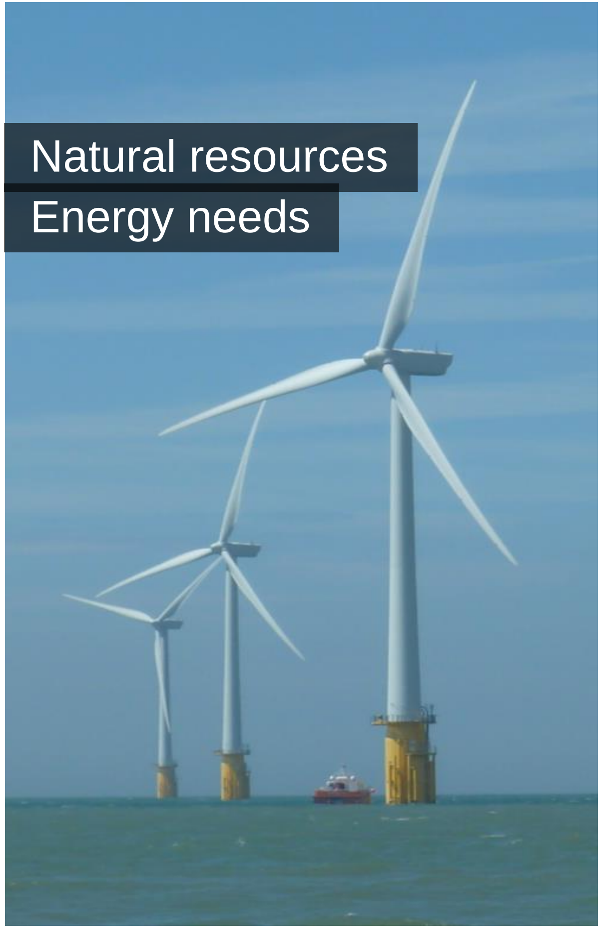




Trends, opportunities, challenges, material issues

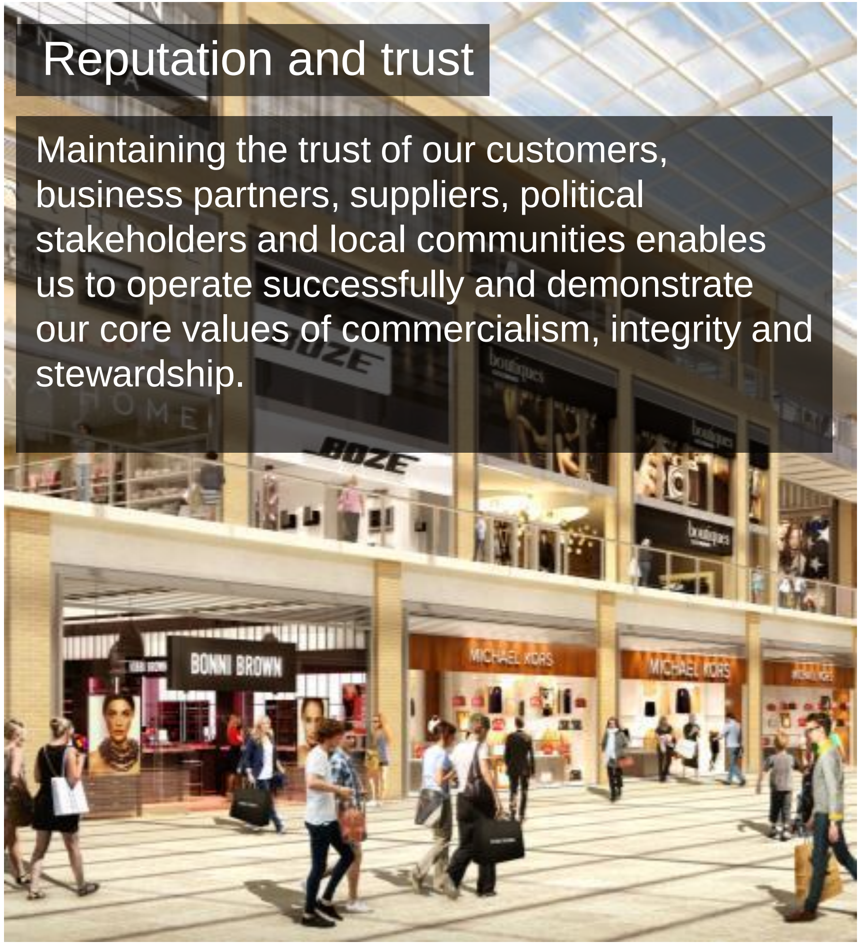
Consumer trends
Demographic changes

Urban challenges
Transport



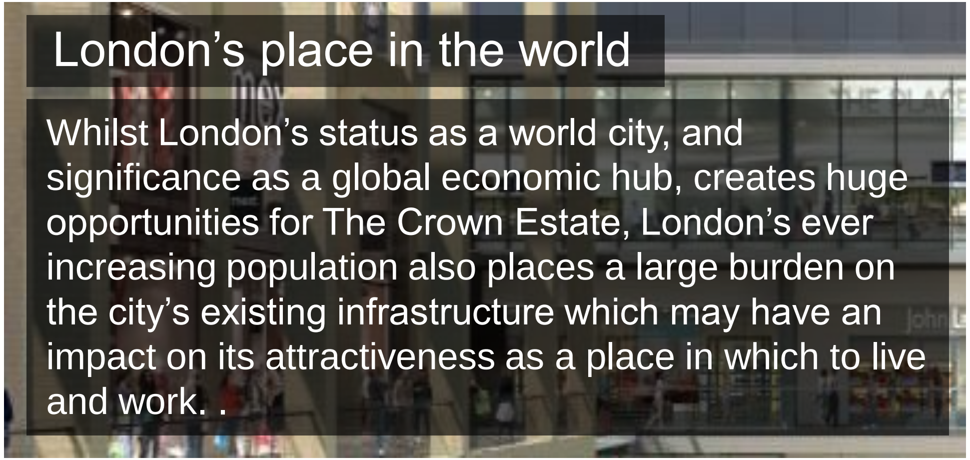
Natural resources
Energy needs

Material issues



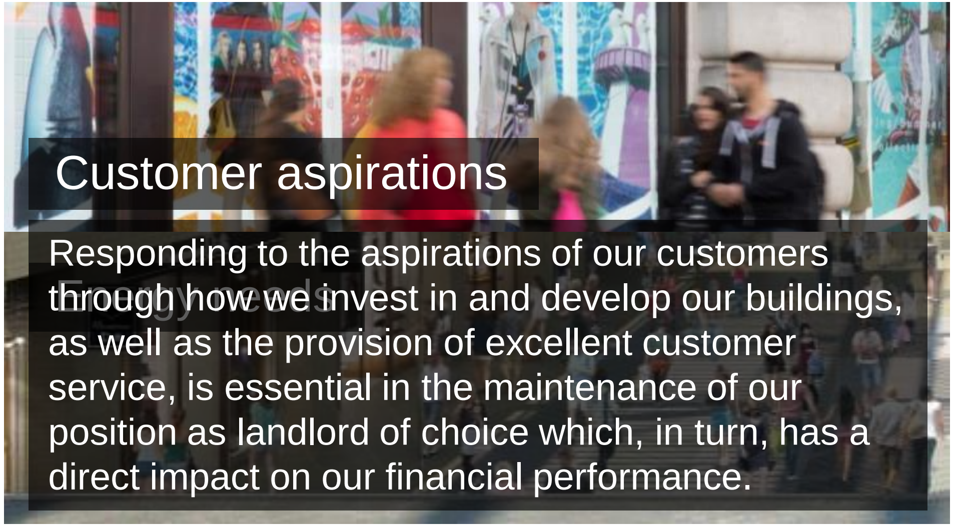
Reputation and trust

Maintaining the trust of our customers, business partners, suppliers, political stakeholders and local communities enables us to operate successfully and demonstrate our core values of commercialism, integrity and stewardship.



London’s place in the world

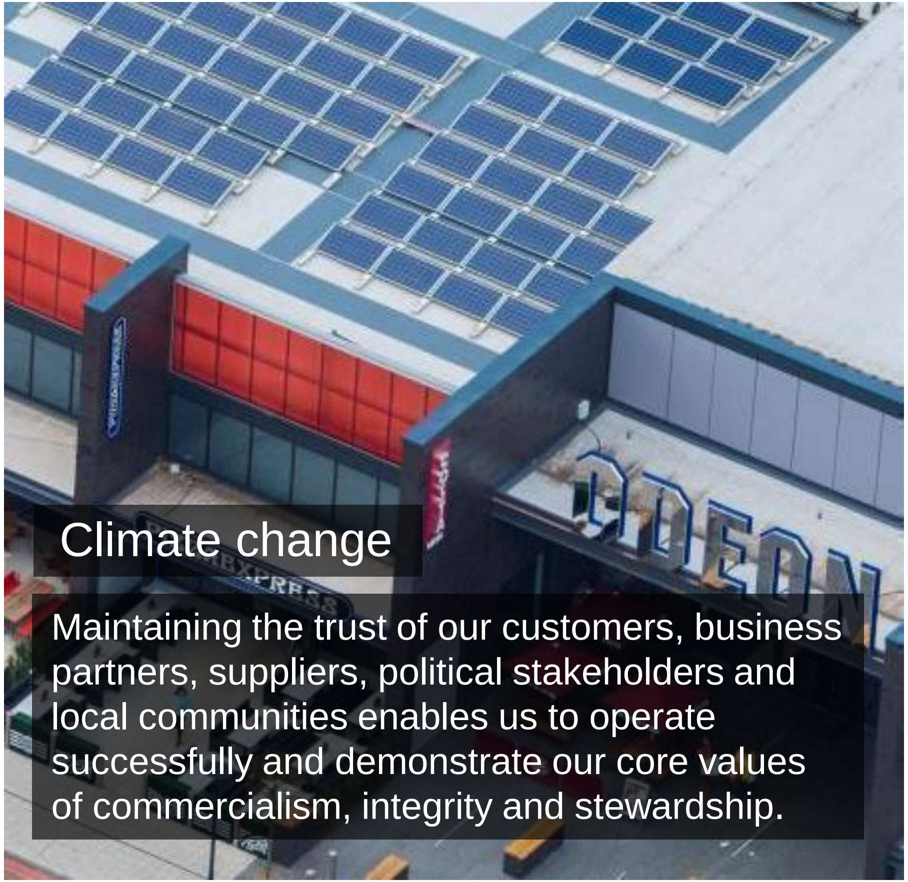
Whilst London’s status as a world city, and significance as a global economic hub, creates huge opportunities for The Crown Estate, London’s ever increasing population also places a large burden on the city’s existing infrastructure which may have an impact on its attractiveness as a place in which to live and work. .



Customer aspirations

Responding to the aspirations of our customers through how we invest in and develop our buildings, as well as the provision of excellent customer service, is essential in the maintenance of our position as landlord of choice which, in turn, has a direct impact on our financial performance.

Material issues



Climate change

Maintaining the trust of our customers, business partners, suppliers, political stakeholders and local communities enables us to operate successfully and demonstrate our core values of commercialism, integrity and stewardship.

Health of the economy

Sustainable and profitable long-term growth in response to market cycles enables us to meet our business targets while maintaining the resilience of our business. Our commercial targets are to increase our net revenue surplus at an agreed rate with the Treasury and outperform our Total Return IPD benchmark on a three-year rolling basis.

Our business model

Our approach

We have a distinctive approach that combines smart, progressive business thinking with a long-term approach. We call this conscious commercialism.

It's about being astute and enterprising in how we create value today, while also taking a considered, long-term view of the assets we manage.

What we do

1. Investment management
We buy and sell

2. Development management
We plan, construct and refurbish

3. Asset management
We manage our assets to increase their value

4. Property management
We add value for customers, visitors and communities

What we rely on

We draw upon our capitals as inputs to our business model and are constantly transforming them through our activities.

Financial resources – available to us to run and grow our business

Our people – the skills, competencies and experience of our employees

Physical resources – property, plant and equipment we own and use

Our know-how – our collective expertise and processes

Natural resources – that we manage and use

Our networks – our relationships with all of our stakeholders including customers, communities and business partners

The value we've created

We consistently create significant value for the UK taxpayer, and tangible, long-term value for all of our stakeholders. We measure this for each of our capitals.

See below for the net economic values (direct) generated for our capitals once Total Contribution methodology has been applied – based on the average of three years' data (2013/14 – 2015/16).

- £320m Financial resources
- £118m Physical resources
- £27m Natural resources
- £1m Our people
- £370m Our know-how
- £15m Our networks

All figures are rounded. More detail on pages 18-21.
For information on indirect and enabled contribution see online at www.thecrownestate.co.uk/TotalContribution.

Investment into the business

We access capital to invest in our portfolios via strategic partnerships and sale of non-core ex-growth assets.

Our contribution to HM Treasury

Our annual net revenue profit is paid to HM Treasury.

Capitals

Financial resources
– available to us to run and grow our business

Physical resources
– property, plant and equipment we own and use

Natural resources
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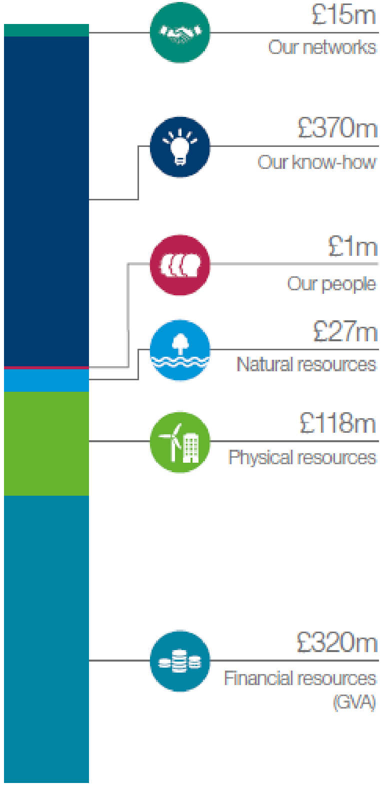


All figures are rounded.

Direct aGVA indicators based on the average of three years' data (2013/14 – 2015/16)

Indicator		Impact +/-	Valuation (£) – 3 year average
Financial resources			
1	Gross value added (in summary, turnover minus the cost of goods and services we procure)	+	319,500,000
	Net total	+	319,500,000
Physical resources			
2	New development and retrofitting	+	123,200,000
3	Fixed asset upgrades (property, plant and equipment)	+	1,137,000
4	Damage to property due to workplace activity	-	(3,600,000)
5	Wear and tear of fixed assets	-	(3,000,000)
6	Reduction in value due to external events (natural, social and political)	-	(200,000)
	Net total	+	117,537,000
Natural resources			
7	Specific habitat investment	+	235,000
8	Soil recovery strategies	+	245,000
9	Greenhouse gas emissions	-	(149,000)
10	Waste generated	-	(170,000)
11	Water consumed	-	(382,000)
12	Carbon sequestered and stored	+	575,000
13	Greenhouse gas emissions avoided	+	38,000
14	Other ecosystem services	+	26,348,000
	Net total	+	26,740,000
Our people			
15	Contribution to private healthcare	+	97,000
16	Contribution to public healthcare	+	1,064,000
17	Investment in other wellbeing programmes	+	131,000
18	Workplace injuries	-	(241,000)
19	Workplace fatalities	-	0
20	Sickness absence days	-	(180,000)
21	Gender equal opportunity	-	(82,000)
22	Employee engagement	+	15,000
23	Employee volunteer programmes	+	59,000
	Net total	+	863,000
Our know-how			
24	Employee training and development	+	797,000
25	Research and development	+	1,847,000
26	Knowledge decay	-	(422,000)
27	Suboptimal employee turnover	-	(355,000)
28	Value added	+	367,409,000
29	Consumption of public information	-	(212,000)
30	Production of public information	+	591,000
	Net total	+	369,655,000
Our networks			
31	Customer management systems	+	49,000
32	Local and wider communities (e.g. Stewardship Programme)	+	9,120,000
33	Late payment of suppliers	-	(151,000)
34	Employment placements	+	2,659,000
35	Visitor wellbeing (from ecosystem services)	+	3,500,000
	Net total	+	15,177,000

Key to colour coding

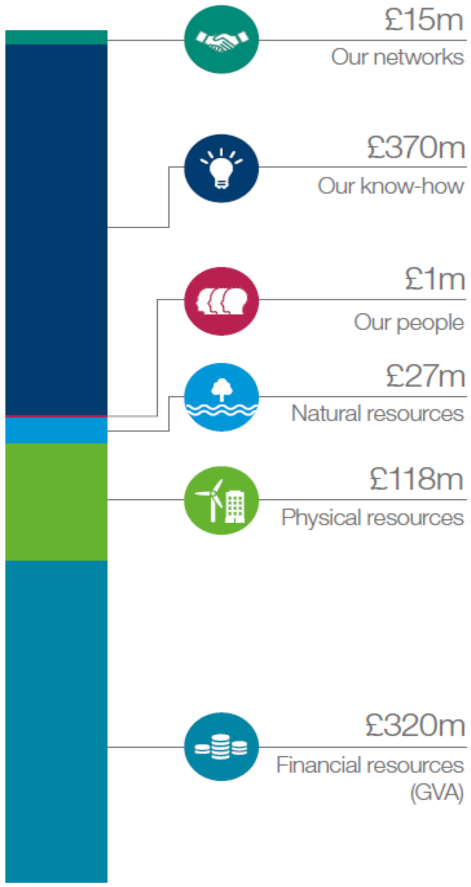
PwC has assessed the maturity of these indicators for the year 2015/16.

In addition, for these indicators, PwC has assessed the maturity of the economic valuation methodology used for the year 2015/16.

NB PwC has not assured the valuation numbers presented in the table.

Aggregation

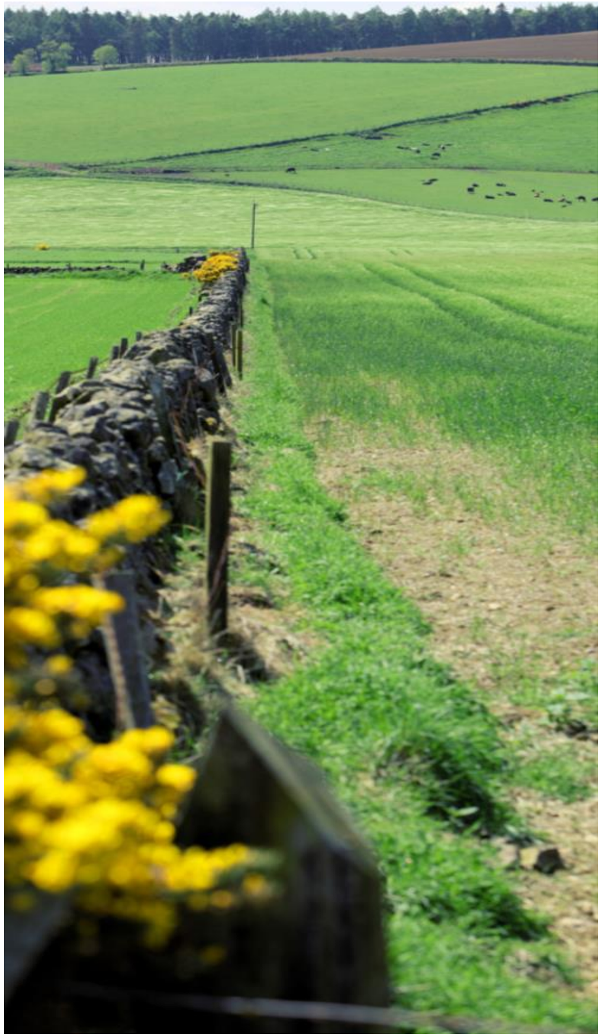
adjusted Gross Value Added' (aGVA)



All figures are rounded.

£851

Total contribution



Framework

This shows positive and negative flows for capitals, with example indicators. In some cases we have shown the Total Contribution value associated with the indicator, based on the average of three years' data (2013/14 – 2015/16).

£123.2m

New development spend (Direct)

Over the past five years The Crown Estate has created more than one million square feet of new real estate (across all portfolios and sectors), enriching the existing stock of built capital through considered design and the primacy of 'place-making'.
On average, over the past three years, £123.2m per annum has been invested in new developments.

£0.36m

Employee turnover (Direct)

Attempts to capture the net reduction of know-how embodied within our employees and subsequent information systems, due to an employee turnover rate that is either too low or too high (suboptimal) relative to industry averages. Economic valuation follows a linear lost productivity approach (in conjunction with conventional HR replacement cost estimates). For every percentage point above or below the optimal range, a lost productivity cost (based on wage rates) is incurred.

£0.8m

Employee training and development programmes (Direct)

Attempts to capture the benefits of investing in and enhancing our combined know-how through individual and wider team training programmes. Economic valuation involves application of a theme-specific (e.g. leadership) programme, Return On Investment multiplier to the direct and indirect (employee time) costs of a programme.

Capitals	Investment	Depreciation of value – internal	Depreciation of value – external	Appreciation of value – internal	Appreciation of value – external	External benefits	External costs
	Interventions to maintain or enhance the functioning and economic value of capitals	Impairment of functioning and economic value of capitals through day-to-day business activity	Impairment of functioning and economic value of capitals via external influences (natural, social or political)	Enhancement of functioning and economic value of capitals through day-to-day business activities	Enhancement of functioning and economic value of capitals via external influences (natural, social or political)	Capital functions and resulting economic goods and services produced for which no financial compensation is received	Capital functions and resulting economic goods and services produced for which no financial compensation is received
	Positive flow	Negative flow	Negative flow	Positive flow	Positive flow	Positive flow	Negative flow
Financial resources	The respective flows for financial resources are fully reflected and integrated within financial accounts and business management			e.g. profits generated and captured within Gross Value Added.			
Physical resources	e.g. new development	e.g. building damage via workplace incident	e.g. building damage via flooding (natural)	e.g. additional functionality for existing building	e.g. new policy such as feed in tariff regime increasing the value of renewable energy installations	e.g. free use of space by community groups	e.g. use of public infrastructure without payment
Natural resources	e.g. additional forestry planting	e.g. mineral resource depletion through extraction	e.g. new policy restricting agricultural activity (political)	e.g. land management practice generating greater soil fertility	e.g. new policy creating additional functionality of seabed (political)	e.g. greenhouse gas emissions avoided	e.g. greenhouse gases emitted
Our people	e.g. employee wellbeing programmes	e.g. sickness absence	e.g. seasonal epidemic (social)	e.g. greater employee engagement	e.g. improved work/life balance (social)	e.g. employee volunteer schemes in working hours	e.g. under-compensated labour
Our know-how	e.g. employee training and development programmes	e.g. employee turnover	e.g. obsolescence of existing skill set through innovation	e.g. learning by doing	e.g. new policy creating additional functionality for skills (political)	e.g. production of public information, i.e. knowledge sharing	e.g. consumption of public information
Our networks	e.g. community investment projects	e.g. late payment of suppliers	e.g. economic downturn straining relationships	e.g. placing unemployed into employment	e.g. economic upturn strengthening relationships	e.g. enhanced visitor wellbeing	e.g. reduced visitor wellbeing

£0.15m

Greenhouse gases emitted (Direct)

Attempts to capture the future damage resulting from unrestricted use of the atmosphere's capacity to assimilate greenhouse gas, i.e. climate change. The damage is estimated via application of a unit social cost of carbon dioxide emissions estimate. The UK Treasury's estimate (equal to £23.32/tonne in 2015 (ignoring inflation) is currently used. This unit cost is conservative relative to more recent publications.

£149m

Greenhouse gas emissions avoided (Enabled)

Attempts to capture the external benefit of avoiding the release of greenhouse gas emissions, resulting from generation of electrical power from renewable technologies, largely offshore wind (i.e. the benefit of averting climate change). On average, over the past three years, 6.4 million tonnes of greenhouse gas emissions have been avoided per year. The benefit is estimated (in terms of avoided cost) via application of a unit social cost of carbon dioxide emissions estimate. Application of the UK Treasury's estimate (equal to £23.32/tonne in 2015 (ignoring inflation) is currently used.

£3.5m

Visitor wellbeing (Direct)

Attempts to capture the external benefit of increasing individual/visitor wellbeing, resulting from recreational pursuits encouraged and hosted by the natural ecosystems of Windsor Great Park. Economic valuation utilises the approach developed by the UK's National Ecosystem Assessment (NEA) – a mix of econometric, regression and biophysical process models that arrive at spatially explicit economic values for recreation and other ecosystem services.

Next Steps

Inside the business we will:

Demonstrate the value of Total Contribution to more colleagues, for decision-making.

Complete the transfer of data collection from the sustainability team to the finance team.

Include more Total Contribution metrics and values in regular management reporting.

Outside the business we will:

Share our Total Contribution expertise with like-minded organisations, showing how it can be used to enhance business activity.

Enable other businesses to work with us to create a standardised approach and learn from each other’s experiences.