

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

I certify that I have audited the financial statements on pages 40 to 58 under The Crown Estate Act 1961. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 47 to 48.

Respective responsibilities of the Commissioners, the Accounting Officer and Auditor

As described on page 41, the Commissioners and the Accounting Officer are responsible for the preparation of the financial statements in accordance with The Crown Estate Act 1961 and Treasury directions made hereunder and for ensuring the regularity of financial transactions. The Commissioners and the Accounting Officer are also responsible for the preparation of the other contents of the Commissioners' Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Crown Estate Act 1961 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Commissioners and the Accounting Officer have not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 41 to 42 reflects The Crown Estate's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Commissioners' and Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of The Crown Estate's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commissioners and the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to The Crown Estate's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of The Crown Estate at 31 March 2004 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with The Crown Estate Act 1961 and with the directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller & Auditor General
23 June 2004

National Audit Office
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London SW1W 9SP

Foreword to the Financial Statements

1. Background Information

- a. The Crown Estate Act 1961 was enacted by Parliament in pursuance of the recommendations of the Report of the Committee on Crown Lands which visualised the role of The Crown Estate Commissioners as analogous to that of trustees of a trust fund. The Act charged the Commissioners with the management of The Crown Estate.
- b. The Crown Estate may be traced back to the reign of King Edward the Confessor and, until the accession of King George III, the Sovereign received its rents, profits and expenses. However since 1760, the annual surplus, after deducting management costs, has been surrendered by the Sovereign to Parliament to help meet the costs of civil government. In return, the Sovereign receives the Civil List and the Government meets other official expenditure incurred in support of the Sovereign.
- c. The duties of the Commissioners are to maintain The Crown Estate as an estate in land (with such cash or investments as may be required for the discharge of their functions) and to maintain and enhance its value and the return obtained from it, but with due regard to the requirements of good management. By the Civil List Act 1952 the net income from The Crown Estate, after defraying costs of collection and management, is required to be paid into the Exchequer and made part of the Consolidated Fund (general government revenues).
- d. The Commissioners have authority to do on behalf of the Crown in relation to The Crown Estate all such acts as belong to the Crown's right of ownership, subject only to the detailed restrictions set out in the Act. The Commissioners must comply with such directions, as to the discharge of their functions under the Act, as may be given to them by the Chancellor of the Exchequer and the Secretary of State for Scotland. The Commissioners submit annually to the Treasury a forecast of their activities in a Corporate Plan covering the following and two ensuing years.
- e. The Crown Estate is not the property of the Government, nor is it the Sovereign's private estate. It is part of the hereditary possessions of the Sovereign in right of the Crown.
- f. The Crown Estate Commissioners are a statutory corporation; they are not a company for the purposes of the Companies Act.
- g. The Crown Estate may not be held other than in land, gilts or cash. Investment in equities or outside the United Kingdom is not permitted.
- h. The Crown Estate has no general powers to borrow, either for capital purposes or for working balances, and there is thus no external indebtedness in the balance sheet.
- i. Under The Crown Estate Act 1961 (First Schedule, para. 5) monies are provided by Parliament (Resource Finance) towards the cost of the Commissioners' salaries and the expense of their office.

2. Crown Estate Commissioners

The composition of the Board of Commissioners during 2003-2004 was:

- Ian Grant, CBE, FRAgS Chairman of the Board
- Roger Bright, MA Chief Executive and Accounting Officer; Deputy Chairman of the Board
- Sir Donald Curry, KB, CBE, FRAgS
- Hugh Duberly, CBE, DL
- Jenefer Greenwood, BSc, FRICS (appointed 1 January 2004)
- Martin Moore, MRICS
- Dinah Nichols, CB
- Ronald Spinney, CBE, FRICS
- Honor Chapman, CBE, BSc, MPhil, FRICS, MRTPI (appointment concluded 31 December 2003)

3. Statement of The Crown Estate Commissioners' and Accounting Officer's Responsibilities

The Commissioners are 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 are required to prepare a statement of accounts in the form and on the basis determined by the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of The Crown Estate's surplus, state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Commissioners are required to:

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

The Treasury has appointed the Second Commissioner as the Accounting Officer for The Crown Estate. His responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.

4. Statement on Internal Control

The Purpose of the System of Internal Control

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of The Crown Estate's policies, aims and objectives as set out in The Crown Estate Act 1961; to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. It is designed to manage risk down to an acceptable level rather than to eliminate all risk of failure and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control has been in place in The Crown Estate for the year ended 31 March 2004 and up to the date of approval of the annual report and financial statements, and accords with Treasury guidance.

Capacity to Handle Risk

The Main Board, Chief Executive and Management Board provide leadership on risk management in The Crown Estate. The Management Board reviews risk as part of the on-going business planning cycle and are 'risk owners' for strategic risks, as well as for those functions and change programmes that they directly manage.

Risk management processes are embedded within all key processes of The Crown Estate, with which staff are familiarised during induction processes and via 'on the job' training.

The Crown Estate's Risk Management Policy and Procedures are held within its Intranet, which is accessible to all staff. The risk management procedures include appropriate measurement criteria designed both to provide support to staff in the tasks involved and also to derive consistency of results.

The Risk and Control Framework

The Crown Estate's Risk Framework, Policy and Processes are consistent with the best practices as defined in the Office of Government Commerce's Management of Risk (M_o_R): Guidance for Practitioners. In particular the framework adopts the Strategic, Programmes, Projects & Operational Model that the Guidance contains and is also aligned with The Crown Estate's well developed planning model.

The process of risk identification, ownership and mitigation is the responsibility of everybody throughout the organisation, consistent with the types of risk and commensurate with their materiality and the relevant personnels' capability to manage risk.

All risks are recorded and held centrally to enable 'cross-cutting', 'aggregating' and 'compounding' risks to be identified.

Risk appetites and tolerances are delegated to, and by, Crown Estate management, reflecting experience and past history of effective risk management. Impact criteria, tolerance limits and escalation criteria are aligned with the delegated approval limits already established within the business.

Risk reporting, based around Internal Control Statements (ICS), is presently being enhanced to provide additional confidence that risk management is active and inclusive.

Foreword to the Financial Statements

continued

Review of Effectiveness

The Audit Committee is responsible for reviewing the effectiveness of the system of internal control, which is informed by the work of the internal auditors and the executive managers who have responsibility for the development and maintenance of the internal control framework and comments made by the external auditors in their management letter. Furthermore an external risk management healthcheck was commissioned and completed in the second half of this financial year.

This healthcheck, performed in line with the M_o_R Guide, established that The Crown Estate's risk management framework was consistent with other public sector organisations. However, as we wish to achieve the highest standards, a risk management programme has been initiated to continue the progress made to date and further embed risk management in the organisation.

The Audit Committee has reviewed the effectiveness of the system of internal control and have endorsed a programme of continuous improvement during the coming financial year. A further healthcheck will be undertaken prior to the issue of the next Statement of Internal Control which will focus on the enhanced quarterly Internal Control Statements produced by Heads of Department.

Significant Internal Control Problems

For the financial year 2003-2004, while the preparation of statutory accounts and the risk management framework show that there are no significant internal control problems to report, following the re-organisation of our urban estates, we have taken the opportunity to review and strengthen our control procedures over transactions delegated to our managing agents.

5. Auditors

The Financial Statements of The Crown Estate are audited by the Comptroller and Auditor General in accordance with section 2(6) of The Crown Estate Act 1961. The audit certificate appears on page 39.

6. Results and Appropriations for the Year

The results are set out in the revenue account on page 44. The surplus for the year amounted to £176.9 million (£171.1 million at 31 March 2003 restated), and the contribution to the Consolidated Fund was £173.0 million (£170.8 million at 31 March 2003). The retained revenue reserve at 31 March 2004 was £5.5 million (£1.6 million at 31 March 2003 restated).

7. Valuation of Land and Buildings

The valuation of The Crown Estate land and buildings as at 31 March 2004 was £4,409 million. This represents an increase of £341 million on the 2003 valuation.

8. Fixed Assets

During the year to 31 March 2004, The Crown Estate expenditure on other fixed assets was £1.2 million (£1.0 million during the year to 31 March 2003), as shown in Note 14 to the Accounts.

9. Charitable Donations

The Crown Estate provided donations to a range of bodies, including charities, totalling £10,450 in 2003-2004 (£18,144 in 2002-2003), as permitted by The Crown Estate Act 1961, section 4(2).

10. Supplier Payment Performance

The Crown Estate's payment policy is to pay all suppliers within 30 days of receipt of a correctly documented invoice, or on completion of service where a fee is recoverable from a third party, or according to contract where a shorter payment period is agreed. During the year The Crown Estate paid 83 per cent of invoices from suppliers within this period. This percentage includes invoices under dispute and amounts recoverable from third parties. On average, invoices from suppliers are paid within 21 days of receipt. The Crown Estate observes the principles of the "Better Payment Practice Code".

11. Corporate Social Responsibility

In May 2004 The Crown Estate published its first Corporate Social Responsibility (CSR) report setting out its approach to CSR in relation to key economic, environmental and social responsibilities. The report reflects the organisation's commitment to enhancing the unique assets of The Crown Estate through its core values of commercialism, integrity and stewardship and sets out a number of targets and objectives for the coming year that will ensure the continued delivery of a coherent and focused CSR strategy.

12. Disabled Persons

(i) Employer

The Crown Estate policy continued:

- i) to give full and fair consideration for employment of disabled persons, having regard to their particular aptitudes and abilities;
- ii) to continue to employ, and arrange appropriate training for, employees who become disabled; and
- iii) to provide for the training, career development and promotion of disabled employees no less than for other staff, having regard to their particular disabilities.

(ii) Property Management

An estate wide audit has been conducted to identify The Crown Estate's responsibilities as 'service provider' under the requirements of the Disability Discrimination Act. A programme of works and follow up actions has been put in hand to examine compliance with our 2004 obligations.

13. Employee Involvement

Following accreditation as an 'Investor in People' (IIP) in April 2003, The Crown Estate has adopted a formal rolling review programme where different parts of the organisation will be assessed each year in order to retain IIP recognition, reflecting the importance of its employees.

The Crown Estate is an equal opportunity employer and is committed to ensuring that no employee, or applicant, is treated less favourably on the grounds of race, religion, gender, ethnic origin, disability or sexual orientation.

Communication with employees has continued to take place through open forums, team briefings and office notices, and will be aided by further planned developments to improve our internal website. Following detailed discussions with the Trade Union side new arrangements for the introduction of a Staff Council will be in place before the end of the year.

Copies of the Corporate Plan and other management information are made freely available to employees, who also receive copies of the Annual Report and Financial Statements.

Roger Bright

Second Commissioner & Accounting Officer
18 June 2004

Revenue Account

for the year ended 31 March 2004

| | Notes | 2003-2004 £'000 | 2002-2003 £'000 Restated |
|---|-------|--------------------|--------------------------------|
| Turnover | 2 | 237,779 | 230,039 |
| Operating costs | 2 | (30,201) | (27,320) |
| Gross surplus | 2 | 207,578 | 202,719 |
| Administrative expenses | 3 | (11,918) | (11,347) |
| Recovery of capital expenditure | 7 | (23,707) | (23,768) |
| Operating surplus | | 171,953 | 167,604 |
| Profit/(loss) on sale of fixed assets | | 19 | 13 |
| Income from gilt-edged investments | | 1,934 | 3,255 |
| Bank interest receivable | 8 | 9,912 | 7,277 |
| FRS 17 Retirement Benefits – Net financing cost | 6 | (97) | 103 |
| Surplus on ordinary activities | | 183,721 | 178,252 |
| Parliamentary Resource finance | 9 | 1,981 | 1,903 |
| Statutory transfers | 10 | (8,772) | (9,102) |
| Net revenue surplus | | 176,930 | 171,053 |
| Exceptional Item: | | | |
| Crown Estate Commissioners' Superannuation Scheme pension liability | | – | (36,450) |
| Resource funding from HM Treasury | | – | 30,450 |
| Consolidated fund payment | 11 | (173,000) | (170,800) |
| Residue carried to revenue reserve | | 3,930 | (5,747) |
| Revenue reserve brought forward | | 1,599 | 7,346 |
| Revenue reserve carried forward | | 5,529 | 1,599 |

The above Financial Statement has been restated to take account of the adoption of FRS 17. The notes (including accounting policies) on pages 47 to 58 form part of these accounts.

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2004

| | Notes | 2003-2004 £'000 | 2002-2003 £'000 Restated |
|---|-------|--------------------|--------------------------------|
| Net revenue surplus | | 176,930 | 171,053 |
| Actuarial gain/(loss) FRS 17 Retirement Benefits | 6 | 703 | (4,471) |
| FRS 17 Retirement Benefits Prior Year Adjustment | 6 | – | (472) |
| Gilt-edged security dealings | | 967 | 1,628 |
| Unrealised increase/(decrease) in investment property portfolio valuation | 12 | 336,327 | 18,994 |
| Transfer of pension liability: additional payment to Consolidated fund | 27 | – | (6,000) |
| Unrealised increase/(decrease) in owner occupied properties | 13 | 5,208 | 975 |
| Other gains/(losses) | | (3,691) | (2,569) |
| Total gains/(losses) recognised in the year | | 516,444 | 179,138 |

The above Financial Statement has been restated to take account of the adoption of FRS 17. The notes (including accounting policies) on pages 47 to 58 form part of these accounts.

Balance Sheet

at 31 March 2004

| | Notes | 2003-2004 £000 | 2002-2003 £000 Restated |
|---|-------|-------------------|-------------------------------|
| Fixed assets: | | | |
| Tangible assets: | | | |
| Investment properties | 12 | 4,336,371 | 3,997,437 |
| Owner occupied properties | 13 | 72,501 | 70,001 |
| Other fixed assets | 14 | 2,236 | 2,132 |
| | | 4,411,108 | 4,069,570 |
| Investments: | | | |
| Mortgages and loans | 15 | 42 | 42 |
| Other investments | 16 | 4,059 | 3,934 |
| | | 4,101 | 3,976 |
| Current assets: | | | |
| Stocks and work in progress | 17 | 196 | 193 |
| Debtors and prepayments | 18 | 30,677 | 26,371 |
| Gilt-edged securities | 19 | 32,460 | 31,500 |
| Cash at bank | | 150,801 | 127,307 |
| | | 214,134 | 185,371 |
| Creditors: amounts falling due within one year | 20 | (31,884) | (35,091) |
| Pension Fund provision | 6 | (4,236) | (4,726) |
| Net current assets | | 178,014 | 145,554 |
| Total assets less current liabilities | | 4,593,223 | 4,219,100 |
| Financed by: | | | |
| Creditors: amounts falling due after one year | 21 | - | 6 |
| | | - | 6 |
| Capital and reserves: | | | |
| General capital reserve | 27 | 1,769,907 | 1,729,144 |
| Revaluation reserve | 27 | 2,822,027 | 2,493,294 |
| Revenue reserve | 27 | 5,529 | 1,599 |
| Pensions reserve | 27 | (4,240) | (4,943) |
| | | 4,593,223 | 4,219,094 |
| | | 4,593,223 | 4,219,100 |

The above Financial Statement has been restated to take account of the adoption of FRS 17. The notes (including accounting policies) on pages 47 to 58 form part of these accounts.

Roger Bright

Second Commissioner & Accounting Officer
18 June 2004

Cash Flow Statement

for the year ended 31 March 2004

| | 2003-2004 £'000 | 2002-2003 £'000 Restated |
|---|--------------------|--------------------------------|
| Net cash inflow from operating activities | 188,219 | 204,021 |
| Returns on investments less consolidated fund payment | | |
| Interest from gilt-edged securities | 2,187 | 4,974 |
| Interest received | 9,294 | 7,277 |
| Consolidated fund payment – Revenue surplus | (172,300) | (171,100) |
| Consolidated fund payment – Transfer of pension liability | – | (36,450) |
| Net cash decrease from returns on investments less consolidated fund payment | (160,819) | (195,299) |
| Capital income/(expenditure) | | |
| Purchase of property | (4,163) | (9,369) |
| New works and improvements and other capital outlay on properties | (59,493) | (34,783) |
| Sale of properties | 60,813 | 26,870 |
| Other capital receipts | 2,944 | 2,453 |
| Mortgage repayment | – | 18 |
| Purchase of fixed assets & antiques | (1,528) | (1,010) |
| Sale of fixed assets and antiques | 33 | 55 |
| Other cash flows and investing activities | (2,306) | (2,251) |
| Net cash increase/(decrease) from capital income and expenditure | (3,700) | (18,017) |
| Management of liquid resources | | |
| Purchase of gilt-edged securities | (8,244) | (25,379) |
| Sale of gilt-edged securities | 6,057 | 93,221 |
| Net increase/(decrease) from management of liquid resources | (2,187) | 67,842 |
| Financing | | |
| Parliamentary Vote Finance | 1,981 | 1,903 |
| HM Treasury Grant – Transfer of pension liability | – | 30,450 |
| Increase/(decrease) in cash | 23,494 | 90,900 |
| Notes to Cash Flow Statement | | |
| 1) Reconciliation of operating profit to net cash inflow from operating activities | | |
| Operating surplus | 171,953 | 167,604 |
| Recovery of capital expenditure | 23,707 | 23,768 |
| (Increase)/decrease in debtors | (3,641) | 3,316 |
| Increase/(decrease) in creditors | (3,797) | 9,327 |
| (Increase)/decrease in stocks & stores | (3) | 6 |
| | 188,219 | 204,021 |
| 2) Analysis of Change in cash as shown in Balance Sheet | | |
| Balance at 1 April 2003 | 127,307 | 36,407 |
| Net cash inflow/(outflow) | 23,494 | 90,900 |
| Balance at 31 March 2004 | 150,801 | 127,307 |

The above Financial Statement has been restated to take account of the adoption of FRS 17. The notes (including accounting policies) on pages 47 to 58 form part of these accounts.

Notes to the Financial Statements

for the year ended 31 March 2004

1. Accounting Policies

a. Basis of Accounts

The accounts are prepared on a going concern and an accruals basis under the historic cost convention, modified to include the revaluation of investment properties. They are prepared in accordance with section 2(5) of The Crown Estate Act 1961 and with the directions made thereunder by the Treasury and, where appropriate, with the Companies Act 1985 and Accounting Standards in the United Kingdom.

b. Crown Estate Act 1961 – Statutory Provisions

The Crown Estate is a body corporate regulated by statute. The provisions of The Crown Estate Act 1961 specify certain distinctions between capital and revenue. Section 2(4) of the Act requires capital and revenue to be distinguished in the accounts and for provision to be made for recovering capital expenditure from revenue where appropriate. The section then specifies that:

- i) any sum received by way of premium on the grant of a lease shall be carried to revenue account if the lease is for a term of 30 years or less and to capital account if the lease is for a term exceeding 30 years; and
- ii) net earnings from mineral workings shall be carried one half to capital account and one half to revenue account.

c. Treasury Agreements

By agreement with the Treasury the capital account is charged with:

- i) the purchase of leaseholds which are recoverable from revenue over 40 years or the unexpired term of the lease if less;
- ii) the cost of all new works and improvements of a wasting nature to investment properties which are recovered from revenue over 25 years; and
- iii) the cost of purchasing other assets e.g. office equipment, plant and machinery, which is recoverable from revenue over the expected life of the asset category.

Expected lives are as follows:

| | |
|----------------------|---|
| Vehicles: | 4-10 years depending on nature of vehicle |
| Plant and equipment: | 4-10 years |
| Computer equipment: | 4 years |
| Office equipment: | 4 years |

The total of such repayments from revenue to capital is limited to 15 per cent of gross income (as defined in agreement with the Treasury). Also by agreement with the Treasury, earnings on dated gilt-edged stocks are carried one half to capital and one half to revenue. "Earnings" are defined as interest plus or minus gains or losses on disposal. Interest on non-dated securities and short term balances is carried to the revenue account alone.

d. Valuation

The Crown Estate portfolio of land and buildings and other property assets has been valued at 31 March 2004 by a combination of professionally qualified internal and external valuers. The external valuers valued approximately 91% of the portfolio. The valuations have been carried out in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The valuation has been carried out as follows:

Investment Properties

Investment properties and those held for development are valued on the basis of Market Value. Properties in course of development are valued at either the Market Value of the partially-built development or the Market Value of the land, plus development costs expended to date.

Marine and mineral assets are valued only where a letting or licence exists, where entry has occurred, or where an interest is expected to provide either a revenue cashflow or a capital receipt within the foreseeable future. Mineral bearing land, including marine dredged aggregates, is valued on the basis of Existing Use Value.

All investment properties in the designated area of the Windsor Estate have been valued.

Owner Occupied Properties

Properties occupied by The Crown Estate are valued on the basis of Existing Use Value. This includes dwellings occupied by The Crown Estate employees and pensioners at Windsor.

Notes to the Financial Statements

for the year ended 31 March 2004 continued

e. Disposal of Freehold Properties

Revaluation Reserve released on disposal of a property is transferred to General Capital Reserve. In accordance with The Crown Estate Act, capital and revenue is required to be distinguished in the account; book profit or loss on disposal (i.e. the amount by which sales proceeds exceed the property valuation at the last accounting date prior to sale) is therefore not taken to the Revenue Account, but is also carried to General Capital Reserve.

f. Depreciation and Amortisation

In accordance with Statement of Standard Accounting Practice No.19, investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve, and no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties. The Commissioners consider that this accounting policy results in the accounts giving a true and fair view. Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Other fixed assets are not revalued each year as the effect of the revaluation is immaterial.

Depreciation as such is not provided for any Crown Estate asset. However, as stated in note 1(c) above, certain expenditure on properties and fixed assets is recovered from revenue and is treated in the accounts as an operating expense.

g. Operating Lease Incentives

UITF28 requires landlords in the property sector to treat any incentive for lessees to enter into a lease agreement as a revenue cost and also account for rental income from the commencement and not, as was The Crown Estate's practice, the expiry date, of any rent free period. The cost of all lease incentives (such as rent-free periods) is offset against the total rent due and the net rental income is then spread evenly over the shorter of the period from the rent-free or rent commencement date as appropriate, to the date of the next rent review or the lease end date. Contributions made towards tenants fit out costs and other costs are charged to capital as New Works and Improvements and are recovered from revenue over twenty five years.

h. Stocks

Stocks comprise estate produce on hand for resale at the year end and stores of supplies held at various estate yards. Produce is valued at the lower of cost and net realisable value. Stores are carried at Commissioners' valuation.

i. Gilt-Edged Securities

Gilts are individually valued each year at the lower of cost and middle market price at the balance sheet date.

j. Grants

The Crown Estate is entitled to apply for government grants available to landowners generally e.g. for agricultural improvements, forestry planting etc. In the year a grant is received, it is credited to revenue or capital depending on the classification of the related expenditure.

k. Turnover

Turnover is recorded net of VAT and represents the total value of:

- i) rent, royalty and similar payments falling due within the year excluding service charges collected from tenants and held to meet specific expenses;
- ii) premiums on leases granted for a term of less than 30 years;
- iii) sales of produce; and
- iv) miscellaneous fees etc.

l. Taxation

The Crown Estate is not subject to corporation, income or capital gains tax. The revenue surplus is paid annually to the Exchequer and will be used for the benefit of the taxpayer.

m. Revaluation Reserve

The investment portfolio was valued at 31 March 1987 and this value is shown in the first published balance sheet as the "original cost" of properties. The Revaluation Reserve reflects changes in the value of properties owned at 31 March 1987 and of properties which have been purchased since that date.

2. Analysis of Gross Surplus

| | Urban Estate £'000 | Rural Estate £'000 | Marine Estate £'000 | Windsor Estate £'000 | Crown Estate HQ £'000 | 2003-2004 Total Crown Estate £'000 | 2002-2003 Total Crown Estate £'000 |
|-------------------------|-----------------------|-----------------------|------------------------|-------------------------|--------------------------|---|---|
| Turnover | | | | | | | |
| Rent & royalties | 175,913 | 19,537 | 34,515 | 2,971 | – | 232,936 | 224,272 |
| Premiums on leases | 1,879 | 189 | – | – | – | 2,068 | 2,705 |
| Sale of produce | – | 397 | – | 316 | – | 713 | 819 |
| Other | 88 | 150 | 54 | 1,373 | 397 | 2,062 | 2,243 |
| Total | 177,880 | 20,273 | 34,569 | 4,660 | 397 | 237,779 | 230,039 |
| Operating Costs | | | | | | | |
| Management fees & costs | 5,694 | 2,684 | 1,396 | 3,523 | (928) | 12,369 | 12,792 |
| Repair & maintenance | 2,626 | 1,902 | (5) | 1,417 | – | 5,940 | 8,012 |
| Other expenditure | 8,967 | 863 | 1,002 | 868 | 192 | 11,892 | 6,516 |
| Total | 17,287 | 5,449 | 2,393 | 5,808 | (736) | 30,201 | 27,320 |
| Gross Surplus | 160,593 | 14,824 | 32,176 | (1,148) | 1,133 | 207,578 | 202,719 |

Other expenditure includes in respect of irrecoverable income:

| | 2003-2004 £'000 | 2002-2003 £'000 |
|--|--------------------|--------------------|
| Provision at the beginning of the year | 5,138 | 6,437 |
| Income written off during the year | (1,208) | (1,313) |
| Addition/(reduction) in provision for the year | 1,397 | 14 |
| Provision at the end of the year | 5,327 | 5,138 |

3. Administrative Expenses

Administrative expenses comprise:

| | 2003-2004 £'000 | 2002-2003 £'000 Restated |
|--|--------------------|--------------------------------|
| Salaries, N.I. and Pension Costs | 6,647 | 6,575 |
| Commissioners' remuneration | 362 | 373 |
| Management and administration expenses | 4,824 | 4,329 |
| Auditor's remuneration | 85 | 70 |
| | 11,918 | 11,347 |

Notes to the Financial Statements

for the year ended 31 March 2004 continued

4. Employee Information

a. The total cost of Crown Estate employees (including Commissioners) included in operating costs and administrative expenses during the year was as follows:

| | 2003-2004 £'000 | 2002-2003 £'000 Restated |
|--|--------------------|--------------------------------|
| Wages and salaries | 8,684 | 8,462 |
| Social security costs N.I. (employer's contribution) | 872 | 679 |
| Pension accrued liability | 1,422 | 1,264 |
| Pension payments | 198 | 247 |
| | 11,176 | 10,652 |

b. The average number of employees during the year was 387 made up as follows:

| | 2003-2004 | | 2002-2003 | |
|------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| | Parliamentary Resource a/c | Crown Estate Revenue a/c | Parliamentary Resource a/c | Crown Estate Revenue a/c |
| Commissioners | 8 | – | 7 | – |
| General administration | 30 | 155 | 30 | 168 |
| Operating activities | – | 194 | – | 203 |

c. The Salary and pension entitlements of the Board were as follows:

| | Age (at 31 March 2004) | 2003-2004 Salary | Bonus | 2003-2004 Total remuneration including bonus | Real increase in pension at 60 | Total accrued pension at 60 at 31 March 2004 | 2002-2003 Total remuneration including bonus |
|---|------------------------------|---------------------|--------|--|---|--|--|
| Board | | | | | | | |
| Ian Grant, Chairman | 60 | 45,783 | – | 45,783 | – | – | 31,057 |
| Roger Bright, Chief Executive | 52 | 157,209 | 52,932 | 210,141 | 1,729 | 59,517 | 192,587 |
| Honor Chapman (appointment concluded 31 December 2003) | 61 | 13,296 | – | 13,296 | – | – | 17,339 |
| Sir Donald Curry | 59 | 17,729 | – | 17,729 | – | – | 17,339 |
| Hugh Duberly | 61 | 17,729 | – | 17,729 | – | – | 17,339 |
| Jenefer Greenwood (appointed 1 January 2004) | 46 | 4,432 | – | 4,432 | – | – | – |
| Martin Moore | 47 | 17,729 | – | 17,729 | – | – | 16,328 |
| Dinah Nichols | 60 | 17,729 | – | 17,729 | – | – | 3,589 |
| Ronald Spinney | 62 | 17,729 | – | 17,729 | – | – | 17,339 |
| | | 309,365 | 52,932 | 362,297 | 1,729 | 59,517 | 312,917 |

d. The salary and pension entitlements of the members of the Executive Management Committee are:

| | Age at 31 March 2004 | 2003-2004 Salary* | Real increase in pension at 60 | Total accrued pension at 31 March 2004 | 2002-2003 Salary* |
|---------------------------------------|----------------------------|----------------------|---|--|----------------------|
| Executive Management Committee | | | | | |
| Anthony Bickmore | 51 | 116,699 | 1,142 | 11,749 | 113,300 |
| Christopher Bouchier | 45 | 81,570 | 2,895 | 25,138 | 73,186 |
| Mal Dillon (appointed 26 March 2003) | 53 | 70,961 | 888 | 30,621 | 68,894 |
| John Ford (appointed 5 November 2003) | 55 | 70,961 | 368 | 31,760 | 68,894 |
| Martin Gravestock | 51 | 81,570 | 1,089 | 35,259 | 79,174 |
| John Lelliott | 51 | 86,907 | 1,158 | 38,055 | 84,377 |
| Frank Parrish | 57 | 81,570 | 4,146 | 41,259 | 73,186 |
| | | 590,238 | 11,686 | 213,841 | 561,011 |

* In addition to a salary, members of the Executive Management Committee received a total of £55,468 (£49,184 in 2002-2003) in non-pensionable bonuses and £4,542 (£2,972 in 2002-2003) in leave converted to salary. Anthony Bickmore, the Director of Urban Estates is entitled to a bonus up to 15%; all other members of the Executive Committee are entitled to a bonus up to 8.5% which is performance related. Christopher Bouchier, as Head of Rural Estates, received a car mileage allowance of £6,000 in 2003-2004 (£6,000 in 2002-2003).

e. The Crown Estate Board members with the exception of Roger Bright, Chief Executive, are non-executive Commissioners and are not members of either The Crown Estate Pension Scheme or the Principal Civil Service Pension Scheme. Roger Bright's bonus is non-pensionable.

f. Pension benefits are provided to Roger Bright, Chief Executive and members of the Executive Management Committee through the Principal Civil Service Pension Scheme or The Crown Estate Pension Scheme. Roger Bright and Martin Gravestock are members of the Principal Civil Service Pension Classic Scheme. The remaining members of the Executive Management Committee are ordinary members of The Crown Estate Pension Scheme.

g. Both schemes provide benefits on a "final salary" basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to 3 years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, a lump sum benefit of four times pensionable pay is payable to Crown Estate Pension Scheme members and also to Roger Bright and Martin Gravestock to whom this benefit has been extended. Both schemes provide a service enhancement in computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

h. The table below shows the number of employees (excluding the Chief Executive and Board members) of The Crown Estate whose remuneration during the year was within the bands stated:

| | 2003-2004 | 2002-2003 |
|---------------------|-----------|-----------|
| £60,000 – £69,999 | 4 | 3 |
| £70,000 – £79,999 | 5 | 6 |
| £80,000 – £89,999 | 3 | 3 |
| £90,000 – £99,999 | 2 | 2 |
| £110,000 – £119,999 | 1 | – |
| £130,000 – £139,999 | 1 | 1 |

Notes to the Financial Statements

for the year ended 31 March 2004 continued

5. Staff Pensions

Two pension schemes operate within The Crown Estate providing retirement and related benefits to all eligible employees based on individual final emoluments. The total pension costs and benefits paid were £1,620,425 in 2003-2004 (£1,511,215 in 2002-2003). The schemes are as follows:

a. The Principal Civil Service Pension Scheme

The PCSPS is an unfunded multi-employer defined benefit scheme but The Crown Estate is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2003-2004, employers' contributions of £822,348 were payable to the PCSPS (£800,643 in 2002-2003) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

b. The Crown Estate Pension Scheme

The Crown Estate Pension Scheme is a defined benefit scheme. The assets of the scheme are held separately from those of The Crown Estate, in an independently administered fund. In accordance with FRS 17, the current service costs of the scheme are charged to the revenue account. The current service costs and contributions are determined by the Scheme Actuary on the basis of triennial valuations using the projected unit method. At 30 September 2002 the value of the scheme's assets was £9.14 million and the actuarial value of the liabilities exceeded these assets by 41 per cent. The principal actuarial assumptions for the valuation are that the pre-retirement investment yield would in the long term exceed earnings increases by 4.5 per cent per annum and the post-retirement investment yield would exceed pension increases by 2.5 per cent per annum.

6. FRS 17 Retirement benefits

The adoption of FRS 17 has necessitated the restatement of the following Financial Statements for 2002-2003:

- i) Revenue Account;
- ii) Statement of Total Recognised Gains and Losses;
- iii) Balance Sheet; and
- iv) Cash Flow Statement

a. Balance Sheet and Notes

The valuation of The Crown Estate Pension Scheme used for FRS 17 disclosures has been based on a fair value of the assets of the scheme measured at 31 March 2004. The principal actuarial assumptions are:

| | 31 March 2004 | 31 March 2003 |
|---|---------------|---------------|
| Discount rate | 5.5% | 5.5% |
| Rate of increase in salaries | 4.0% | 3.5% |
| Rate of increase to pensions in payment | 3.0% | 2.5% |
| Rate of increase to pensions in deferment | 3.0% | 2.5% |
| Inflation assumption | 3.0% | 2.5% |

For 2003-2004 employer contributions were £483,686 (£577,044 in 2002-2003) and the agreed contribution rate for the coming year is 18.5% of pensionable pay.

The assets in The Crown Estate Pension Scheme and the expected rates of return were:

| | Long-term Rate of Return Expected at 31 March 2004 | Value at 31 March 2004 £'000 | Long-term Rate of Return Expected at 31 March 2003 | Value at 31 March 2003 £'000 |
|-------------------------------------|---|---------------------------------------|---|---------------------------------------|
| Equities | 7.5% | 6,055 | 8.0% | 6,968 |
| Bonds | 5.0% | 5,324 | 5.0% | 1,517 |
| Other | 5.0% | 76 | 5.5% | 722 |
| Total Market value of assets | | 11,455 | | 9,207 |
| Present value of Scheme liabilities | | (15,691) | | (13,933) |
| Surplus/(deficit) in Scheme | | (4,236) | | (4,726) |
| Net Pension asset/(liability) | | (4,236) | | (4,726) |

b. Analysis of Amount Charged to Operating Profit

| | 31 March 2004 £'000 | 31 March 2003 £'000 |
|---|------------------------|------------------------|
| Current service cost | 594 | 449 |
| Past service cost | – | – |
| (Gain)/loss on any settlements and curtailments | – | – |
| Total operating charge | 594 | 449 |

c. Analysis of Amount Credited to Other Finance Income

| | 31 March 2004 £'000 | 31 March 2003 £'000 |
|--|------------------------|------------------------|
| Expected return on pension scheme assets | 675 | 826 |
| Interest on pension scheme liabilities | (772) | (723) |
| Net return | (97) | 103 |

d. Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses

| | 31 March 2004 £'000 | 31 March 2003 £'000 |
|--|------------------------|------------------------|
| Actual return less expected return on pension scheme assets | 1,483 | (3,269) |
| Experience gain/(loss) arising on the scheme liabilities | 78 | (872) |
| Gain/(loss) arising from changes in assumptions underlying the scheme liabilities | (858) | (330) |
| Actuarial gain/(loss) recognised in Statement of Total Recognised Gains and Losses | 703 | (4,471) |

e. Movements in Surplus During the Year

| | 31 March 2004 £'000 | 31 March 2003 £'000 |
|--|------------------------|------------------------|
| Surplus/(deficit) in scheme at beginning of the year | (4,726) | (472) |
| Movement in year: | | |
| Current service cost | (594) | (449) |
| Contributions | 478 | 563 |
| Past service costs | – | – |
| Curtailment gains | – | – |
| Other finance income | (97) | 103 |
| Actuarial gain/(loss) | 703 | (4,471) |
| Surplus/(deficit) in scheme at the end of the year | (4,236) | (4,726) |

f. History of Experience Gains and Losses

| | 31 March 2004 | 31 March 2003 |
|--|---------------|---------------|
| Difference between expected and actual return on scheme assets: | | |
| Amount (£'000) | 1,483 | (3,269) |
| Percentage of scheme assets | 13% | (36%) |
| Experience gain/(loss) on scheme liabilities: | | |
| Amount (£'000) | 78 | (872) |
| Percentage of the present value of the scheme liabilities | 0% | (6%) |
| Total amount recognised in Statement of Total Recognised Gains and Losses: | | |
| Amount (£'000) | 703 | (4,471) |
| Percentage of the present value of the scheme liabilities | 4% | (32%) |

Notes to the Financial Statements

for the year ended 31 March 2004 continued

7. Recovery of Capital Expenditure

| | 2003-2004 £'000 | 2002-2003 £'000 |
|------------------------------|--------------------|--------------------|
| Purchase of leaseholds | 7,968 | 9,012 |
| New works and improvements | 14,698 | 13,786 |
| Depreciation of fixed assets | 1,041 | 970 |
| | 23,707 | 23,768 |

8. Financial Instruments

This disclosure excludes short term debtors and creditors. The Crown Estate may not be held other than in land, gilts or cash. Investment in equities or outside the United Kingdom is not permitted.

The cash holdings not needed for operational purposes are maintained in overnight 'on call' accounts with major United Kingdom clearing banks, thereby avoiding liquidity risks. These deposits are on a variable interest basis. There is no currency risk as it is only permitted to hold funds in sterling and there are no significant transactions in currencies other than sterling. The Crown Estate monitors the rates offered by the banks and transfers deposits as appropriate to maximise returns. As The Crown Estate is not permitted to place money for periods longer than overnight there is no maturity profile in respect of cash deposits.

The Crown Estate's non-cash financial assets comprise solely gilts managed on its behalf by the Commissioners for the Reduction of National Debt. Investment in and sale of these assets is made on the basis of advice given by the CRND and the funding requirements of the capital programme.

9. Parliamentary Resource 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 Resource Account for the current year is shown on the face of the Revenue Account and the detail is reported separately to Parliament as a Resource Account.

10. Statutory Transfers

| | 2003-2004 £'000 | 2002-2003 £'000 |
|--------------------------------------|--------------------|--------------------|
| Moieties: | | |
| Mineral dealings | 7,805 | 7,474 |
| Gilt-edged securities dealings | 967 | 1,628 |
| To General Capital Reserve (Note 27) | 8,772 | 9,102 |

11. Consolidated Fund Payment

In accordance with section 1 of the Civil List Act 1952, the revenue surplus is due to the Consolidated Fund. As The Crown Estate is not permitted by statute 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.

12. Tangible Assets – Investment Properties

| | Urban Estate £'000 | Rural Estate £'000 | Marine Estate £'000 | Windsor Estate £'000 | 2003-2004 Total Crown Estate £'000 | 2002-2003 Total Crown Estate £'000 |
|-----------------------------------|-----------------------|-----------------------|------------------------|-------------------------|--|--|
| Valuation at 31 March 2003 | 3,196,415 | 435,278 | 266,615 | 99,129 | 3,997,437 | 3,964,557 |
| Completed properties | 3,122,665 | 435,278 | 266,615 | 99,129 | 3,923,687 | 3,944,487 |
| Properties under development | 73,750 | – | – | – | 73,750 | 20,070 |
| Additions | | | | | | |
| Freeholds | – | 749 | – | – | 749 | 583 |
| Leaseholds | 3,348 | 62 | 4 | – | 3,414 | 8,786 |
| New Works | 51,758 | 3,784 | 8 | 1,415 | 56,965 | 32,409 |
| Other | 1,804 | 517 | 186 | 21 | 2,528 | 1,431 |
| | 56,910 | 5,112 | 198 | 1,436 | 63,656 | 43,209 |
| Proceeds from Disposals | | | | | | |
| Freeholds | (18,212) | (10,821) | (84) | (552) | (29,669) | (13,802) |
| Premiums | (27,340) | (92) | (4) | (1,000) | (28,436) | (13,068) |
| Other | (1,841) | (803) | (300) | – | (2,944) | (2,453) |
| | (47,393) | (11,716) | (388) | (1,552) | (61,049) | (29,323) |
| Surplus/(Deficit) on Valuation | 221,399 | 93,085 | 35,037 | (13,194) | 336,327 | 18,994 |
| Valuation at 31 March 2004 | 3,427,331 | 521,759 | 301,462 | 85,819 | 4,336,371 | 3,997,437 |
| Completed properties | 3,271,071 | 521,759 | 301,462 | 85,819 | 4,180,111 | 3,923,687 |
| Properties under development | 156,260 | – | – | – | 156,260 | 73,750 |

Agricultural land currently valued at £42.8 million (£20.0 million in 2002-2003) is included within the valuation of the urban estate.

Leasehold Properties

The valuation of Crown Estate properties at 31 March 2004 includes £92.0 million (£78.4 million at 31 March 2003) in respect of leasehold properties analysed as follows:

| | 2003-2004 £'000 | 2002-2003 £'000 |
|---|--------------------|--------------------|
| Leaseholds with less than 50 years to run | 50 | 270 |
| Leaseholds with 50 or more years to run | 91,985 | 78,135 |

The leasehold additions figure includes £0.5 million in respect of leasehold interests on Crown Estate freeholds bought back in the course of the year ended 31 March 2004 (£1.9 million in 2002-2003).

13. Tangible Assets – Owner Occupied Properties

| | Urban Estate £'000 | Rural Estate £'000 | Marine Estate £'000 | Windsor Estate £'000 | 2003-2004 Total Crown Estate £'000 | 2002-2003 Total Crown Estate £'000 |
|-----------------------------------|-----------------------|-----------------------|------------------------|-------------------------|--|--|
| Valuation at 31 March 2003 | 14,110 | 316 | – | 55,575 | 70,001 | 68,083 |
| Additions | | | | | | |
| Improvements | – | – | – | – | – | 140 |
| Other | – | – | – | – | – | 803 |
| | – | – | – | – | – | 943 |
| Proceeds from disposals | (2,708) | – | – | – | (2,708) | – |
| Surplus/(Deficit) on Valuation | 968 | (145) | – | 4,385 | 5,208 | 975 |
| Valuation at 31 March 2004 | 12,370 | 171 | – | 59,960 | 72,501 | 70,001 |

Notes to the Financial Statements

for the year ended 31 March 2004 continued

14. Tangible Assets – Other Fixed Assets

| | Plant & Machinery £'000 | Office Equipment £'000 | Motor Vehicles £'000 | Total £'000 |
|--|----------------------------|---------------------------|-------------------------|----------------|
| Cost/Valuation at 1 April 2003 | 1,193 | 9,270 | 1,684 | 12,147 |
| Additions | 116 | 929 | 110 | 1,155 |
| Disposals | (147) | (70) | (237) | (454) |
| Gross Value at 31 March 2004 | 1,162 | 10,129 | 1,557 | 12,848 |
| Depreciation at 1 April 2003 | 1,025 | 7,819 | 1,171 | 10,015 |
| Charge | 75 | 823 | 143 | 1,041 |
| Disposals | (143) | (86) | (215) | (444) |
| Total Depreciation at 31 March 2004 | 957 | 8,556 | 1,099 | 10,612 |
| Net Book Value: | | | | |
| At 31 March 2004 | 205 | 1,573 | 458 | 2,236 |
| At 1 April 2003 | 168 | 1,451 | 513 | 2,132 |

15. Mortgages and Loans

The mortgage advance is secured. Interest is payable quarterly.

16. Other Investments

Other investments comprise:

| | 2003-2004 £'000 | 2002-2003 £'000 |
|------------------------|--------------------|--------------------|
| Antiques and paintings | 4,059 | 3,934 |

Antiques and paintings are valued by recognised experts every 5 years on a rolling basis. During 2003-2004 these assets were valued by an independent valuer. This exercise has not been completed as it has identified a potential material fall in value that would have had the effect of eliminating the revaluation reserve and charging the book loss to the Revenue Account. A limited review of the valuation has indicated a sufficient degree of uncertainty as to warrant further investigation. The assets are therefore held in the balance sheet at their carrying value pending completion of the review in 2004-2005.

17. Stocks and Work in Progress

Stocks and work in progress comprise:

| | 2003-2004 £'000 | 2002-2003 £'000 |
|-------------------|--------------------|--------------------|
| Stocks for resale | 98 | 101 |
| Stores | 98 | 92 |
| | 196 | 193 |

18. Debtors

Debtors comprise:

| | 2003-2004 £'000 | 2002-2003 £'000 |
|-----------------|--------------------|--------------------|
| Rent receivable | 7,782 | 10,470 |
| Other debtors | 11,195 | 6,460 |
| Accrued income | 11,700 | 9,441 |
| Tax reclaimable | – | – |
| | 30,677 | 26,371 |

19. Gilt-Edged Securities

| | 2003-2004 Cost £'000 | 2003-2004 Nominal £'000 | 2002-2003 Cost £'000 | 2002-2003 Nominal £'000 |
|----------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
| At 1 April 2003 | 31,818 | 29,180 | 101,379 | 97,992 |
| Additions | 8,244 | 8,019 | 25,379 | 17,804 |
| Disposals | (6,057) | (6,054) | (93,221) | (86,616) |
| Profit/(Loss) on realisation | (253) | – | (1,719) | – |
| | 33,752 | 31,145 | 31,818 | 29,180 |
| Write down to lower market value | (1,292) | – | (318) | – |
| Book value at 31 March 2004 | 32,460 | 31,145 | 31,500 | 29,180 |

The market value of gilt-edged securities held at 31 March 2004 was £32.5 million (£31.8 million at 31 March 2003).

20. Creditors: amounts falling due within one year

Creditors and accrued charges comprise:

| | 2003-2004 £'000 | 2002-2003 £'000 |
|------------------------------|--------------------|--------------------|
| Trade creditors | 2,387 | 4,141 |
| Rents received in advance | 16,528 | 13,332 |
| Taxes and social security | 4,399 | 6,165 |
| Other creditors | 3,477 | 4,509 |
| Consolidated Fund | 1,000 | 300 |
| Accruals and deferred income | 4,093 | 6,644 |
| | 31,884 | 35,091 |

21. Creditors: amounts falling due after more than one year

| | 2003-2004 £'000 | 2002-2003 £'000 |
|--|--------------------|--------------------|
| Creditors amounts falling due after more than one year | – | 6 |
| | – | 6 |

Long term creditors include the sum £Nil (£5,939 at 31 March 2003) arising from phased payment of premium on the purchase of a leasehold interest. The outstanding balance was payable in equal quarterly instalments.

22. Subsidiary undertakings

Several Crown Estate properties are managed by management companies under the control of The Crown Estate Commissioners. These subsidiary undertakings are not material by value in the context of The Crown Estate financial results and therefore consolidated statements have not been prepared.

The companies concerned, all of which are registered in England, are as follows:

Fitzgeorge and Fitzjames Management Company Ltd

RM Site Management Ltd

Urbanlease Property Management Company Ltd

23. Capital Commitments

At 31 March 2004 The Crown Estate had committed to make capital expenditure of £89 million (£91 million at 31 March 2003) and had authorised additional expenditure of £46 million (£148 million at 31 March 2003).

24. Contingent Liabilities

At the balance sheet date The Crown Estate had no contingent liabilities.

25. Related Party Transactions

During the year, none of the Commissioners, members of the key management staff or other related parties have undertaken any material transactions with The Crown Estate.

26. Third Party Deposits

At 31 March 2004 The Crown Estate held on deposit on behalf of third parties £15,351,172 (£16,138,657 at 31 March 2003).

Notes to the Financial Statements

for the year ended 31 March 2004 continued

27. Reconciliation of movements in reserves

| | 2003-2004 | | | | Total Crown Estate £'000 |
|---|----------------------------|----------------------------------|------------------------------|--------------------------|-----------------------------|
| | Pension Provision £'000 | General Capital Reserve £'000 | Revaluation Reserve £'000 | Revenue Reserve £'000 | |
| Movements in reserves comprise: | | | | | |
| Balance 1 April 2003 | (4,943) | 1,729,144 | 2,493,294 | 1,599 | 4,219,094 |
| Statutory transfers (note 10) | - | 8,772 | - | - | 8,772 |
| Capital recovery | | | | | |
| i) Leaseholds | - | 7,968 | - | - | 7,968 |
| ii) New Works | - | 14,698 | - | - | 14,698 |
| Adjustments to book value of gilt-edged securities | - | (1,292) | - | - | (1,292) |
| Other adjustments | - | (2,185) | - | - | (2,185) |
| Revaluation Reserve released on disposal of freehold properties | - | 12,802 | (12,802) | - | - |
| Increase/(decrease) in valuation of property portfolio | | | | | |
| i) Investment Properties | - | - | 336,327 | - | 336,327 |
| ii) Owner Occupied Properties | - | - | 5,208 | - | 5,208 |
| Pension Costs prior year adjustment 2002 | - | - | - | - | - |
| Actuarial gain/(Loss) | 703 | - | - | - | 703 |
| Exceptional Item: Transfer of Pension Liability | | | | | |
| i) Liability at 1 April 2002 | - | - | - | - | - |
| ii) HM Treasury Grant | - | - | - | - | - |
| Net Revenue Surplus | - | - | - | 176,930 | 176,930 |
| Consolidated Fund payment | - | - | - | (173,000) | (173,000) |
| Balance at 31 March 2004 | (4,240) | 1,769,907 | 2,822,027 | 5,529 | 4,593,223 |

| | 2002-2003 Restated | | | | Total Crown Estate £'000 |
|---|----------------------------|----------------------------------|------------------------------|--------------------------|-----------------------------|
| | Pension Provision £'000 | General Capital Reserve £'000 | Revaluation Reserve £'000 | Revenue Reserve £'000 | |
| Movements in reserves comprise: | | | | | |
| Balance 1 April 2002 | - | 1,694,064 | 2,478,418 | 7,346 | 4,179,828 |
| Statutory transfers (note 10) | - | 9,102 | - | - | 9,102 |
| Capital recovery | | | | | |
| i) Leaseholds | - | 9,012 | - | - | 9,012 |
| ii) New Works | - | 13,786 | - | - | 13,786 |
| Adjustments to book value of gilt-edged securities | - | (318) | - | - | (318) |
| Other adjustments | - | (1,595) | - | - | (1,595) |
| Revaluation Reserve released on disposal of freehold properties | - | 5,093 | (5,093) | - | - |
| Increase/(decrease) in valuation of property portfolio | | | | | |
| i) Investment Properties | - | - | 18,994 | - | 18,994 |
| ii) Owner Occupied Properties | - | - | 975 | - | 975 |
| Pension Costs prior year adjustment 2002 | - | - | - | 217 | 217 |
| Actuarial gain/(Loss) | (4,943) | - | - | - | (4,943) |
| Exceptional Item: Transfer of Pension Liability | | | | | |
| i) Liability at 1 April 2002 | - | - | - | (36,450) | (36,450) |
| ii) HM Treasury Grant | - | - | - | 30,450 | 30,450 |
| Net Revenue Surplus | - | - | - | 170,836 | 170,836 |
| Consolidated Fund payment | - | - | - | (170,800) | (170,800) |
| Balance at 31 March 2003 | (4,943) | 1,729,144 | 2,493,294 | 1,599 | 4,219,094 |

The above note to the Financial Statements has been restated to take account of the adoption of FRS 17.

Ten Year Record

Based on the Financial Statements for the years ended 31 March:

| | 1994-1995 £'000 | 1995-1996 £'000 | 1996-1997 £'000 | 1997-1998 £'000 | 1998-1999 £'000 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Revenue | | | | | |
| Turnover | 133,249 | 143,011 | 154,039 | 160,076 | 173,645 |
| Operating Costs | (25,907) | (23,854) | (25,452) | (20,732) | (23,064) |
| Gross Surplus | 107,342 | 119,157 | 128,587 | 139,344 | 150,581 |
| Administrative expenses | (9,022) | (9,449) | (9,079) | (9,168) | (9,237) |
| Net Revenue Surplus | 84,855 | 94,583 | 102,955 | 113,209 | 125,774 |
| Consolidated Fund Payment | 84,800 | 94,600 | 103,000 | 113,200 | 126,000 |
| Investment & Owner Occupied Properties | 2,013,281 | 2,208,112 | 2,496,693 | 2,899,586 | 3,131,177 |
| Other Fixed Assets | 2,010 | 2,054 | 1,778 | 1,965 | 2,565 |
| Investments | 4,322 | 4,244 | 4,027 | 3,956 | 3,848 |
| Current Assets | 137,664 | 134,055 | 123,720 | 134,920 | 188,117 |
| Current Liabilities | (17,766) | (23,100) | (22,807) | (20,998) | (21,239) |
| Capital and Reserves | 2,139,511 | 2,325,365 | 2,603,411 | 3,019,429 | 3,304,468 |

| | 1999-2000 £'000 | 2000-2001 £'000 | 2001-2002 £'000 | *2002-2003 £'000 | 2003-2004 £'000 |
|--|--------------------|--------------------|--------------------|---------------------|--------------------|
| Revenue | | | | | |
| Turnover | 187,202 | 204,885 | 223,537 | 230,039 | 237,779 |
| Operating Costs | (25,130) | (26,661) | (30,176) | (27,320) | (30,201) |
| Gross Surplus | 162,072 | 178,224 | 193,361 | 202,719 | 207,578 |
| Administrative expenses | (10,226) | (10,701) | (10,743) | (11,347) | (11,918) |
| Net Revenue Surplus | 132,885 | 147,740 | 163,339 | 171,053 | 176,930 |
| Consolidated Fund Payment | 132,900 | 147,800 | 163,500 | 170,800 | 173,000 |
| Investment & Owner Occupied Properties | 3,433,612 | 3,870,938 | 4,032,640 | 4,067,438 | 4,408,872 |
| Other Fixed Assets | 2,741 | 2,395 | 2,133 | 2,132 | 2,236 |
| Investments | 3,856 | 3,960 | 3,994 | 3,976 | 4,101 |
| Current Assets | 205,450 | 146,581 | 167,017 | 185,371 | 214,134 |
| Current Liabilities | (19,137) | (20,190) | (25,956) | (39,817) | (36,120) |
| Capital and Reserves | 3,626,522 | 4,003,684 | 4,179,828 | 4,219,100 | 4,593,223 |

* The above note to the Financial Statements has been restated to take account of the adoption of FRS 17.