

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

I certify that I have audited the financial statements of The Crown Estate for the year ended 31 March 2009 under The Crown Estate Act 1961. These comprise the statement of income and expenditure, the statement of recognised income and expense, the balance sheet, the cash flow statement and the related notes. 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.

Respective responsibilities of The Crown Estate Commissioners, the Accounting Officer and Auditor

The Board and Chief Executive as Accounting Officer are responsible for preparing the annual report, which includes the remuneration report, the financial statements in accordance with The Crown Estate Act 1961 and HM Treasury directions made thereunder, and for ensuring the regularity of financial transactions. These responsibilities are set out in the statement of The Crown Estate Commissioners' and Accounting Officer's responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with The Crown Estate Act 1961 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the operating and financial review, The Board and Governance report, included in the annual report, is consistent with the financial statements. I also report 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.

In addition, I report to you if The Crown Estate has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on internal control reflects The Crown Estate's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of The Crown Estate's corporate governance procedures or its risk and control procedures.

I read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises: what we do, highlights of the year, Chairman's introduction, the unaudited part of the remuneration report and the ten-year record.

I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Board and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the remuneration report to be audited are free from material misstatement, whether caused by fraud or error, 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the remuneration report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with The Crown Estate Act 1961 and directions made thereunder by HM Treasury, of the state of The Crown Estate's affairs as at 31 March 2009 and of its deficit, recognised gains and losses and cash flows for the year then ended
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with The Crown Estate Act 1961 and Treasury directions made thereunder
- information, which comprises the operating and financial review, the Board and governance report, included in the annual report, is consistent with the financial statements.

Opinion on regularity

In my opinion, 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.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
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London
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29 June 2009

Statement of income and expenditure

For the year ended 31 March 2009

	Note	2008/09			2007/08		
		Income account £'000	Capital account £'000	Total £'000	Income account £'000	Capital account £'000	Total £'000
Revenue	4	304,157	7,583	311,740	251,547	6,870	258,417
Costs	4	(80,456)	–	(80,456)	(78,925)	–	(78,925)
Operating surplus	4	223,701	7,583	231,284	172,622	6,870	179,492
Recovery of capital expenditure under The Crown Estate Act 1961	10	(21,330)	21,330	–	10,126	(10,126)	–
Net revaluation (losses)/gains on investment property (including profits on disposals)	11	–	(1,194,689)	(1,194,689)	–	287,215	287,215
Share of (loss)/profit from joint ventures	18	8,660	(122,785)	(114,125)	8,380	(46,540)	(38,160)
Share of profit from other property investments	19	1,523	(11,193)	(9,670)	1,719	(3,376)	(1,657)
Parliamentary resource finance	13	2,342	–	2,342	2,357	–	2,357
Statutory transfers	14	(10,912)	10,912	–	(9,909)	9,909	–
Net operating (loss)/profit before financing		203,984	(1,288,842)	(1,084,858)	185,295	243,952	429,247
Investment revenue	5	22,473	–	22,473	28,152	–	28,152
Net (deficit)/surplus	4	226,457	(1,288,842)	(1,062,385)	213,447	243,952	457,399
Consolidated Fund Payment	15	(230,000)	–	(230,000)	(211,000)	–	(211,000)
(Deficit)/surplus after Consolidated Fund payment		(3,543)	(1,288,842)	(1,292,385)	2,447	243,952	246,399

The total column represents the Income Statement of The Crown Estate.

All results are derived from continuing operations.

Statement of recognised income and expense

For the year ended 31 March 2009

	Note	2008/09			2007/08		
		Income account £'000	Capital account £'000	Total £'000	Income account £'000	Capital account £'000	Total £'000
Unrealised deficit on revaluation of other investments	11	–	–	–	–	(22)	(22)
Revaluation (deficit) of owner occupied properties	11	–	(25,328)	(25,328)	–	(11,458)	(11,458)
Actuarial (loss)/gains on retirement benefits	9c	(1,151)	–	(1,151)	3,641	–	3,641
Total recognised in equity		(1,151)	(25,328)	(26,479)	3,641	(11,480)	(7,839)
Net (deficit)/surplus		226,457	(1,288,842)	(1,062,385)	213,447	243,952	457,399
Total recognised income and expense for the year		225,306	(1,314,170)	(1,088,864)	217,088	232,472	449,560

Balance sheet

As at 31 March 2009

	Note	2008/09 £'000	2007/08 £'000
Assets			
Non-current assets			
Investment properties	16	5,965,329	7,104,937
Investment properties being redeveloped	16	21,350	27,780
Property, plant and equipment:			
Owner occupied property	16	86,523	112,922
Other property, plant and equipment	17	8,492	4,859
Investment in joint ventures	18	185,732	203,296
Other property investments	19	27,501	38,693
Other investments	20	4,845	4,865
Receivables due after one year	21	11,399	3,252
Total non-current assets		6,311,171	7,500,604
Current assets			
Non-current investment property assets held for sale	16	221,944	12,001
Inventories	22	230	2,350
Trade and other receivables	23	31,635	69,339
Cash and cash equivalents		390,086	518,362
Total current assets		643,895	602,052
Pension asset	9a	907	848
Total assets		6,955,973	8,103,504
Liabilities			
Current liabilities			
Trade and other payables	24	164,941	103,107
Total current liabilities		164,941	103,107
Non-current liabilities	24	776,190	666,691
Total liabilities		941,131	769,798
Net assets		6,014,842	7,333,706
Capital and reserves			
Revenue reserve available for distribution to The Consolidated Fund	25	5,314	10,067
Reserves relating to the Capital account	25	6,008,621	7,297,463
Total reserves arising from the Statement of Income and Expenditure		6,013,935	7,307,530
Revaluation reserve	25	–	25,328
Pensions reserve	25	907	848
Total capital and reserves		6,014,842	7,333,706



Roger Bright
Second Commissioner and Accounting Officer

24 June 2009

Cash flow statement

For the year ended 31 March 2009

	Note	2008/09 £'000	2007/08 £'000
Cash generated from operating activities	27	249,798	232,810
Interest received		23,289	28,189
Distributions received from investment in joint ventures		8,007	6,886
Distributions received from other property investments		1,523	1,719
Net cash inflow from operating activities		282,617	269,604
Cash flows from investing activities			
Purchase of property		(192,485)	(188,198)
New works and improvements and other capital outlay on properties		(114,283)	(69,918)
Proceeds from disposal of investment properties		231,490	328,831
Investment in joint ventures		(104,809)	(49,941)
Investment in other property investments		-	(4)
Purchase of plant and equipment		(3,981)	(2,310)
Sale of plant and equipment and antiques		-	53
Loan (advance)/repayment		(889)	312
Other cash flows from investing activities		(1,278)	(647)
Net cash (outflow)/inflow from investing activities		(186,235)	18,178
Cash flows from financing activities			
Parliamentary Resource Finance		2,342	2,357
Net cash inflow from financing activities		2,342	2,357
Net increase in cash and cash equivalents before Consolidated Fund payment		98,724	290,139
Consolidated Fund payment		(227,000)	(207,000)
(Decrease)/increase in cash in the year after Consolidated Fund payment		(128,276)	83,139
Cash and cash equivalents at start of year		518,362	435,223
Cash and cash equivalents at end of year	28	390,086	518,362

Notes to the financial statements

1. Notes to the financial statements

a. Basis of preparation

These financial statements have been prepared on a going concern and an accruals basis under the historic cost basis, modified to include investment properties, owner occupied properties and other investments at fair value. They are prepared in accordance with section 2(5) of The Crown Estate Act 1961 and with the directions made thereunder by the Treasury.

First time adoption of International Financial Reporting Standards as adopted by the European Union

The directions from the Treasury require that the financial statements are prepared for the first time, in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union and therefore in compliance with Article 4 of the EU IAS Regulation except where these conflict with The Crown Estate Act 1961.

The accounts are prepared in accordance with IFRS issued by the International Accounting Standards Board as adopted by the European Union (adopted IFRSs). IFRS cannot be complied with in one respect due to The Crown Estate Act 1961. Where a lease premium is received in respect of an operating lease of less than 30 years The Crown Estate Act 1961 requires that the income is taken direct to the income account in the Statement of Income and Expenditure. This conflicts with the treatment required by IFRS, however the impact is not regarded as material, as the amounts are minimal.

The principal impacts of adopting IFRS and the directions made by the Treasury, together with comparatives for the year ended 31 March 2008 contained within this report, are set out in note 35. These accounting policies have been adopted consistently in all material respects throughout the year and the comparative figures in respect of 2007/08 have been restated to reflect the IFRS adjustments.

The financial statements are prepared in accordance with International Financial Reporting Standards and Interpretations in force at the reporting date. Other than IFRS 8 'Operating Segments' and IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their inter Action', The Crown Estate has not adopted any standards or interpretations in advance of the required implementation dates. At the date of approval of these financial statements, the following standards and guidelines relevant to The Crown Estate were in issue but not effective for the current financial period:

Amendments to IAS 1 – Presentation of Financial Statements;
IAS 27 and IFRS 1 amendments – Cost of investment in a subsidiary, jointly controlled entity or associate;
IFRIC 15 – Agreements for the construction of real estate.

It is not expected that the adoption of these Standards or Interpretations will have a material impact on the financial statements.

To meet the requirements of The Crown Estate Act 1961, and the directions made by the Treasury for the presentation of this information in these two primary statements, the movements in the Statement of Income and Expenditure and in the Statement of Recognised Income and Expense are analysed between income and capital accounts. The capital account includes profits or losses arising on the sale of investment properties, the realisation of revaluation gains, the income arising on the grant of operating leases in exchange for a premium and the transfers between the capital and income account as required by Statutory provisions and Treasury Agreements as detailed in notes 1b and 1c.

b. The Crown Estate Act 1961 – Statutory provisions

The Crown Estate is a body corporate regulated by Statute and domiciled in The United Kingdom. The provisions of The Crown Estate Act 1961 specify certain distinctions between capital and income 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 income beneficiary is the Exchequer and the capital is held for Her Majesty and Her Successors. Section 2(4) of the Act requires capital and income to be distinguished in the accounts and for provision to be made for recovering capital expenditure from income where appropriate and the accounts are prepared on that basis. The section then specifies that:

- any sum received by way of premium on the grant of a lease shall be carried to income 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
- net earnings from mineral workings shall be carried one half to capital account and one half to income account.

c. Treasury agreements

The Crown Estate Act 1961 allows adjustments between income and capital specifically for the purposes of recouping capital expenditure out of income. As The Crown Estate is prohibited from borrowing, Treasury Agreements provide The Crown Estate with a reliable and predictable source of capital. With effect from 1 April 2008, by agreement with the Treasury, the mechanism by which the income account is charged was amended. The new method is calculated as an amount equivalent to 9% of the previous year's gross revenue as disclosed in the income account, excluding service charges. Prior to 1 April 2008 the income account was charged with an amount equivalent to:

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

Notes to the financial statements continued

1. Notes to the financial statements (continued)

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

2. Significant accounting policies

a. Properties

Properties are valued by independent external valuers on an open market basis 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. The valuations are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Investment properties

Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties and those held for development are held at fair value. They are valued on the basis of open market value and, under the IAS 40 requirement to show fair value, the independent valuations are grossed up to reflect deferred income on lease premiums. When The Crown Estate begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such. Such properties 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 an entry has occurred, or where an interest is expected to provide either a revenue cash flow or capital receipt within the foreseeable future. Wind farm sales where an option has been granted within round 1 and round 2 of the wind farm tender process have been included. Mineral bearing land, including marine dredged aggregates, is valued on the basis of market value.

Any surplus or deficit arising on revaluing investment properties is recognised in the Statement of Income and Expenditure in the capital account column.

Owner occupied properties

Properties occupied by The Crown Estate are stated at fair value. Any surplus or deficit arising 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 taken to the statement of income and expenditure. These properties include dwellings occupied by The Crown Estate employees and pensioners at Windsor.

Disposals

Disposals are recognised at the date of legal completion. Profits and losses arising on disposal are recognised through the Statement of Income and Expenditure in the capital account column. The profit or loss on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus additions in the period and costs of sale. Properties are transferred between categories at the estimated market value on the date of transfer.

Non-current property assets held for sale

Properties held with the intention of disposal at the balance sheet date are held at fair value. They are shown in the balance sheet as current property assets.

Impairment

As properties are carried at fair value there is no separate impairment review.

b. Leases

The Crown Estate as lessor – operating leases

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. Where a premium is received in exchange for the grant of a long leasehold interest, the premium is taken to deferred income and released to revenue in the capital account column over the life of the lease.

Under the requirements of The Crown Estate Act 1961 lease premiums received on the grant of a lease with a lease term of 30 years or less is taken to the statement of income and expenditure in the year that it is granted. Such receipts are reflected in revenue in the income account column. As the amounts are not material, this does not affect The Crown Estate's ability to comply with IFRS.

2. Significant accounting policies (continued)

The Crown Estate as lessee – finance leases

Where an investment property is held under a head lease it is initially recognised as an asset as the sum of the premium paid on acquisition and the present value of minimum ground rent payments. The corresponding rent liability to the head leaseholder is included in the balance sheet as a finance lease obligation.

c. Other property, plant and equipment

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 nature of vehicle

Plant and equipment: 4–10 years

Computer equipment and software: 4 years

Office equipment: 4 years

d. Joint ventures

Joint ventures are those entities in which The Crown Estate has significant influence, and joint control over the financial and operating policies. Joint ventures are accounted for under the equity method. The balance sheet incorporates The Crown Estate's share of the net assets of joint ventures. The Statement of Income and Expenditure incorporates the share of the joint venture's profit after tax including The Crown Estate's share of revaluation of investment properties.

e. Other investments – antiques and paintings

Antiques and paintings are shown at fair value. Any surplus or deficit arising from changes in fair value are recognised directly in the revaluation reserve. The last valuation was carried out during the year ended 31 March 2008.

They are valued by recognised experts every three years on a rolling basis.

f. Inventories

Inventories 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. Inventories are carried at The Crown Estate's valuation as the amounts are minimal.

g. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

h. Revenue

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

Rental income

Rental income is recognised on an accruals basis. A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews. Where a rent free period is included in a lease, the rental income foregone is allocated evenly over the period from the date of the lease commencement to the earliest termination date.

Other income

Other income categories comprise income from the sale of produce, service charge income, miscellaneous fees and sundry income.

i. Taxation

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

Notes to the financial statements continued

2. Significant accounting policies (continued)

j. Pensions – Defined Benefit Plans

Two defined benefit pension schemes operate within The Crown Estate providing retirement and related benefits to all eligible employees based on individual final emoluments. The schemes are as follows:

i. 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. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2008/09, employers' contributions were payable to the PCSPS at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. For 2009/10 the employer contribution will be between 16.7% and 24.3% of pensionable pay. 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.

ii. 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 IAS 19 the current service cost of the scheme is charged to the income account. The current service cost is The Crown Estate's share of the cost of the accruing benefits over the year on the IAS 19 assumptions. The contributions are agreed by The Crown Estate and the Trustees on the basis of triennial valuations using the projected unit method. At 30 September 2005, the value of the scheme's assets was £14.78 million and the actuarial value of the technical provisions exceeded these assets by 45%. The actuarial assumptions used for the statutory funding valuation are that the pre-retirement investment yield would in the long term exceed earnings increases by 2% per annum and the post-retirement investment yield would exceed pension increases by 1.5% per annum. The Trustees and The Crown Estate have agreed a seven-year recovery plan to eliminate the deficit. Consequently, an additional amount of £85,000 per month is being paid to the scheme by The Crown Estate. Furthermore, the regular employer contribution rate has increased to 28.7% of pensionable earnings per annum. The Trustees and The Crown Estate are currently assessing the funding level of the scheme as at 30 September 2008 and will be agreeing the level of contributions that are required to recover the deficit in due course.

Actuarial gains and losses are recognised in the Pension Reserve. Following the implementation of IFRIC 14, pension scheme surpluses are only recognised to the extent that The Crown Estate has an unconditional right to utilise the surplus.

3. Significant judgements, key assumptions and estimates

a. Trade receivables

The basis of arriving at the bad and doubtful debt provision is as follows:

For both rental and non-rental debts the managing agents responsible for the dealing are instructed to review each debt and what part of the debt should be provided for. Management centrally also review the exposure to different market sectors and make further provision where there is objective evidence of impairment.

b. Unsettled rent reviews

Where the rent review date has passed, and the revised annual rent has not been agreed, rent is accrued from the date of the rent review based upon the estimation of the revised annual rent. The estimate is derived from knowledge of market rents for comparable properties.

c. Operating leases

The Commissioners have exercised judgement in identifying that in all material respects, where The Crown Estate is the lessor such leases are accounted for as operating leases. In exercising this judgement consideration has been given to the nature and economic life of the buildings which are all accounted for as held within investment properties, and whether the risks and rewards of ownership remain with The Crown Estate.

d. Risk management

The Crown Estate actively monitors and mitigates risks. A detailed description on this process is included within 'the risk and control framework' section of the Governance Report.

e. Property valuations

Investment properties, investment properties being redeveloped and owner-occupied properties are shown at market value in accordance with valuations carried out by independent valuers. Valuations are based on a number of key assumptions including an estimate of future rental income. Note 16 refers to a greater degree of uncertainty at 31 March 2009, due to the economic climate.

4. Segmental analysis

Business segmental analysis

All The Crown Estate operations are in the UK and are currently organised into five operating divisions.

The divisions are: urban estate, marine estate, rural estate, Windsor Estate and The Crown Estate headquarters.

These divisions are the basis on which The Crown Estate monitors its operations and upon which decisions are made by the Board.

There is no primary or secondary split and the details below are a complete analysis by business segment.

This note reflects the early adoption of IFRS 8.

	Urban		Rural		Marine		Windsor		Crown HQ		Total	
	2008/09	2007/08	2008/09	2007/08	2008/09	2007/08	2008/09	2007/08	2008/09	2007/08	2008/09	2007/08
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Reflected in the income account:												
Rent and royalties	199,298	167,403	26,142	20,990	49,623	33,263	3,973	3,855	–	1	279,036	225,512
Premiums on leases	–	614	32	20	15	6	–	1	–	–	47	641
Sale of produce	–	–	403	315	–	–	267	355	–	–	670	670
Service charge income	18,308	19,674	–	–	–	–	–	–	–	–	18,308	19,674
Other income	3,836	3,034	125	157	54	43	2,081	1,617	–	199	6,096	5,050
Revenue recognised in the income account	221,442	190,725	26,702	21,482	49,692	33,312	6,321	5,828	–	200	304,157	251,547
Direct costs:												
Management fees and costs	(26,579)	(27,087)	(3,875)	(3,333)	(2,082)	(1,734)	(5,264)	(4,850)	12	(1)	(37,788)	(37,005)
Repairs and maintenance	(2,177)	(3,288)	(2,025)	(1,972)	(50)	(26)	(872)	(1,719)	–	125	(5,124)	(6,880)
Other expenditure	(12,924)	(11,810)	(1,086)	(489)	(1,812)	(1,938)	(2,211)	(1,358)	15	(393)	(18,018)	(15,988)
Total direct costs	(41,680)	(42,185)	(6,986)	(5,794)	(3,944)	(3,698)	(8,347)	(7,927)	27	(269)	(60,930)	(59,873)
Gross surplus	179,762	148,540	19,716	15,688	45,748	29,614	(2,026)	(2,099)	27	(69)	243,227	191,674
Indirect costs:												
Administrative expenses (note 6)	(618)	(474)	(989)	(776)	(1,877)	(1,274)	–	–	(13,546)	(12,969)	(17,030)	(15,493)
Indirect operating expenses (note 7)	–	–	–	–	–	–	–	–	–	(730)	–	(730)
Depreciation of tangible fixed assets (note 17)	(33)	(91)	(28)	(36)	(2)	–	(253)	(236)	(2,186)	(2,659)	(2,502)	(3,022)
Profit/(loss) on sale of plant and equipment (note 11)	–	22	–	–	–	–	10	42	(4)	129	6	193
Total indirect costs	(651)	(543)	(1,017)	(812)	(1,879)	(1,274)	(243)	(194)	(15,736)	(16,229)	(19,526)	(19,052)
Total costs	(42,331)	(42,728)	(8,003)	(6,606)	(5,823)	(4,972)	(8,590)	(8,121)	(15,709)	(16,498)	(80,456)	(78,925)
Operating surplus reflected in the income account	179,111	147,997	18,699	14,876	43,869	28,340	(2,269)	(2,293)	(15,709)	(16,298)	223,701	172,622

Notes to the financial statements continued

4. Segmental analysis (continued)

	Urban		Rural		Marine		Windsor		Crown HQ		Total	
	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000
Income from grant of leases reflected in the capital account	7,583	6,870	-	-	-	-	-	-	-	-	7,583	6,870
Net valuation (loss)/gains (inc profits on disposals) (note 11)	(1,223,542)	88,965	21,001	168,417	18,474	23,297	(10,622)	6,536	-	-	(1,194,689)	287,215
Share of (loss) in joint ventures (note 18)	(114,125)	(38,160)	-	-	-	-	-	-	-	-	(114,125)	(38,160)
Share of (loss) in other property investments (note 19)	(9,670)	(1,657)	-	-	-	-	-	-	-	-	(9,670)	(1,657)
Parliamentary resource finance	-	-	-	-	-	-	-	-	2,342	2,357	2,342	2,357
Investment revenue (note 5)	576	814	(20)	110	81	120	17	43	21,819	27,065	22,473	28,152
Total net (deficit)/ surplus reflected in the income and expenditure account	(1,160,067)	204,829	39,680	183,403	62,424	51,757	(12,874)	4,286	8,452	13,124	(1,062,385)	457,399

4. Segmental analysis (continued)

	Urban		Rural		Marine		Windsor		Crown HQ		Total	
	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000
Balance sheet												
non-current												
assets:												
Investment properties (note 16)	4,532,006	5,725,368	919,880	903,010	409,462	370,180	103,981	106,379	-	-	5,965,329	7,104,937
Investment properties being re-developed (note 16)	21,350	27,780	-	-	-	-	-	-	-	-	21,350	27,780
Owner occupied property (note 16)	24,787	46,125	203	271	-	-	61,533	66,526	-	-	86,523	112,922
Plant and equipment (note 17)	594	171	23	43	68	-	741	683	7,066	3,962	8,492	4,859
Investment in joint ventures (note 18)	185,732	203,296	-	-	-	-	-	-	-	-	185,732	203,296
Other property investments (note 19)	27,501	38,693	-	-	-	-	-	-	-	-	27,501	38,693
Other investments (note 20)	-	-	-	-	-	-	-	-	4,845	4,865	4,845	4,865
Receivables due after one year (note 21)	11,335	3,188	64	64	-	-	-	-	-	-	11,399	3,252
Total non-current assets	4,803,305	6,044,621	920,170	903,388	409,530	370,180	166,255	173,588	11,911	8,827	6,311,171	7,500,604
Unallocated current assets											644,802	602,900
Unallocated liabilities											(941,131)	(769,798)
Net assets											<u>6,014,842</u>	<u>7,333,706</u>
Capital expenditure (note 16)	265,000	601,644	16,161	47,111	21,418	11,180	4,189	3,231	-	-	306,768	663,166

Notes to the financial statements continued

5. Investment revenue

	2008/09 £'000	2007/08 £'000
Bank interest income	22,541	28,142
IAS 19 retirement benefits – net financing (cost)/return (note 9b)	(68)	10
	22,473	28,152

6. Administrative expenses

	2008/09 £'000	2007/08 £'000
Administrative expenses comprise:		
Salaries, national insurance and pension costs	7,497	7,520
Commissioners' remuneration	533	504
Management and administration expenses	8,820	7,374
Auditors' remuneration	180	95
	17,030	15,493

7. Indirect operating expenses

Indirect operating expenses comprise additional costs incurred by The Crown Estate from the re-organisation of its operations. These costs include early retirement, redundancy payments and associated costs and have been separately disclosed because of their significance and impact.

	2008/09 £'000	2007/08 £'000
Re-organisation expenses	–	730

8. Employee information

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

	2008/09 £'000	2007/08 £'000
Wages and salaries	14,426	12,121
National insurance costs	1,256	1,113
Pension accrued liability	2,127	3,240
Pension payments	179	555
Total staff costs	17,988	17,029
Less: Capitalised staff costs	(4,347)	(3,442)
Staff costs reflected in the income account	13,641	13,587

b. The average number of permanent full-time equivalent employees during the year was made up as follows:

	2008/09		2007/08	
	Parliamentary Resource account	Crown Estate Revenue account	Parliamentary Resource account	Crown Estate Revenue account
Commissioners	8	–	8	–
General administration	30	146	31	141
Operating activities	–	207	–	213
	38	353	39	354

9. IAS 19 retirement benefits

The Crown Estate's policy is to recognise actuarial gains and losses immediately in each full year.

a. Balance sheet and notes

	31 March 2009 £'000	31 March 2008 £'000
Reconciliation of the present value of the defined benefit obligation		
Present value of defined benefit obligation at beginning of year	20,326	22,646
Current service cost	403	529
Interest cost	1,312	1,180
Members' contributions	32	25
Actuarial gain on plan liabilities	(2,632)	(3,705)
Benefits paid	(722)	(904)
Past service costs	179	555
Present value of defined benefit obligation at end of year	18,898	20,326
Analysis of the defined benefit obligation		
Present value of the unfunded defined benefit obligation	–	–
Present value of the funded defined benefit obligation	18,898	20,326
	31 March 2009 £'000	31 March 2008 £'000
Reconciliation of fair value of plan assets		
Fair value of plan assets at start of year	21,174	19,142
Expected return on plan assets	1,244	1,190
Actuarial (loss) on plan assets	(3,783)	(64)
Contributions by The Crown Estate	1,860	1,785
Contributions by Members	32	25
Benefits paid	(722)	(904)
Fair value of assets at end of year	19,805	21,174
Amounts to be recognised in the balance sheet		
Present value of funded obligation	18,898	20,326
Fair value of scheme assets	(19,805)	(21,174)
Net asset in the balance sheet	(907)	(848)

b. Amounts to be recognised in the statement of income and expenditure

	2008/09 £'000	2007/08 £'000
Interest on obligation	1,312	1,180
Expected return on plan assets	(1,244)	(1,190)
Net financing cost/(return) – note 5	68	(10)
Current service cost	403	529
Past service cost	179	555
Total	650	1,074

Notes to the financial statements continued

9. IAS 19 retirement benefits (continued)

c. Total amount recognised in the statement of recognised income and expense

	2008/09 £'000	2007/08 £'000
Actuarial (loss)/gain	(1,151)	3,641
Actuarial (loss)/gain recognised in the statement of recognised income and expense	(1,151)	3,641

d. Cumulative amount recognised in the statement of recognised income and expense

	2008/09 £'000	2007/08 £'000
Cumulative (loss)/gain recognised in the statement of recognised income and expense	(233)	918

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

	Long-term rate of return expected at 31 March 2009	Long-term rate of return expected at 31 March 2008	Long-term rate of return expected at 31 March 2007	Value at 31 March 2009 £'000	Value at 31 March 2008 £'000	Value at 31 March 2007 £'000
Equities	8.00%	7.50%	7.50%	6,454	8,608	9,208
Bonds	3.80%	4.50%	4.75%	13,371	12,561	9,837
Other	0.50%	4.50%	4.75%	(20)	5	97
Total market value of assets	5.5%	5.7%	6.1%	19,805	21,174	19,142

The overall expected return on assets is calculated as the weighted average of expected returns on each individual asset class.

The expected return on equities is the sum of inflation, the dividend yield, economic growth and investment expenses. The return on gilts is the current market yield on long-term gilts. The expected return on other assets is the current interest rate set by the Bank of England. The Trustees have recently resolved to invest 60% in index-linked gilts and 40% in equities. The figure of 5.5% at 31 March 2009 reflects this mix.

The amount of Crown Estate related investments included in the fair value of the plan assets was £nil (31 March 2008 – £nil).

	31 March 2009 £'000	31 March 2008 £'000
Actual return on plan assets	(2,539)	1,126

Principal actuarial assumptions at the balance sheet date

	31 March 2009	31 March 2008
Discount rate	6.50%	6.5%
Rate of increase in salaries	3.75%	4.5%
Price inflation	2.75%	3.5%
Pension increases	2.75%	3.5%
Mortality table	PNXA00MC with 1% underpin birth year	PXA92MC birth year

9. IAS 19 retirement benefits (continued)

In last year's FRS 17 valuation the PA92 year of birth mortality table was used. This year the PA00 year of birth table with a 1% underpin has been used, to allow for future mortality improvements. Based on these mortality tables the assumed life expectations on retirement at age 60 are:

	31 March 2009	31 March 2008
Retiring today:		
Male	87.1	86.8
Female	89.7	89.7
Retiring in 20 years:		
Male	89.3	87.9
Female	91.7	90.7

Sensitivity analysis of the principal assumptions used to measure scheme liabilities:

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	increase/decrease by 1%	increase/decrease by 6%
Rate of inflation	increase/decrease by 1%	increase/decrease by 13%
Rate of salary growth	increase/decrease by 1%	increase/decrease by 2%
Rate of mortality	increase by 1 year	increase by 3%

f. History of experience gains and losses

	31 March 2009 £'000	31 March 2008 £'000	31 March 2007 £'000	31 March 2006 £'000	31 March 2005 £'000
Present value of defined benefit obligation	18,898	20,326	22,646	21,791	16,653
Fair value of assets	19,805	21,174	19,142	15,967	13,289
Surplus/(deficit)	907	848	(3,504)	(5,824)	(3,364)
Experience (loss)/gain on scheme liabilities:					
Amount (£'000)	2,632	3,705	201	4,953	—
Percentage of the present value of the scheme liabilities	14%	18%	1%	23%	0%
Comprised of:					
Change in assumptions	2,290	3,980	136	4,690	—
Experience gain	342	(275)	65	263	—
Experience (loss)/gain from the difference between the expected and actual return on scheme assets:					
Amount (£'000)	(3,783)	(64)	(207)	1,711	605
Percentage of scheme assets	(19%)	0%	(1%)	11%	5%

For 2008/09 employer contributions were £1,860,000 (£1,785,000 in 2007/08). The Crown Estate's estimate of contributions to be paid to the Scheme in 2009/10 is £1,543,000.

For 2008/09 employer contributions to The Principal Civil Service Pension Scheme (PCSPS) were £1,419,413 (£2,478,279 in 2007/08).

Notes to the financial statements continued

10. Recovery of capital expenditure under The Crown Estate Act 1961 and by Treasury agreement

	2008/09 £'000	2007/08 £'000
By agreement with the Treasury the income account is charged with an amount as disclosed in note 1c:		
Charge	21,330	–
Purchase of leaseholds	–	4,738
New works and improvements	–	(14,864)
Total recovered from the capital account	21,330	(10,126)
Depreciation of fixed assets charged as costs in the income account (note 17)	2,502	3,022
Total recovery under the Treasury Agreement	23,832	(7,104)

The charge for 2008/09 is calculated after taking into account the change in accounting estimate as disclosed in the 2007/08 financial statements.

11. Net revaluations gains in property and investments (including profit/(loss) on disposal)

	2008/09 £'000	2007/08 £'000
Reflected in the statement of income and expenditure:		
Revaluation of investment properties	(1,319,204)	235,080
Revaluation of owner-occupied properties	(1,804)	–
Adjustment for gross up for deferred rent movement	109,278	5,130
Gain on disposal of investment properties	17,041	47,005
Net revaluation (losses)/gains on investment property	(1,194,689)	287,215
Share of revaluation losses in joint ventures	(122,785)	(46,540)
Share of revaluation losses in other property investments	(11,193)	(3,376)
Total reflected in the capital account	(1,328,667)	237,299
Profit on disposal of plant and equipment	6	193
Total reflected in the statement of income and expenditure	(1,328,661)	237,492
Reflected in the statement of recognised income and expense:		
Revaluation of owner-occupied property	(25,328)	(11,458)
Revaluation of other investments	–	(22)
Total reflected in the statement of recognised income and expense	(25,328)	(11,480)
Total	(1,353,989)	226,012

12. Financial instruments

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 held on a floating interest basis. There is no currency risk as The Crown Estate only holds 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 financial assets held by The Crown Estate are cash equivalents and trade and other receivables (note 23). The Crown Estate's credit risk is primarily attributable to its trade receivables. The amount shown in the balance sheet is net of provision for trade receivables. An allowance for impairment is made where there is evidence that the debt may not be received under the original terms of the receivable concerned. The balance for trade receivables is relatively low in relation to the value of the balance sheet and therefore the credit risk attributable to receivables is considered to be low.

The financial liabilities held by The Crown Estate are trade and other payables (note 24), and the fair value of these liabilities equals their carrying value.

13. Parliamentary Resource finance

The Crown Estate Act 1961 provides that monies are provided by Parliament in respect of Board members' 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 income account and the detail is reported separately to Parliament as a resource account.

14. Statutory transfers

Under the provisions of The Crown Estate Act 1961 the following amounts are carried to the capital account from the income account.

	2008/09 £'000	2007/08 £'000
Moieties:		
Mineral dealings	10,912	9,909

15. Consolidated Fund payment

In accordance with section 1 of the Civil List Act 1952, the income 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.

Notes to the financial statements continued

16. Properties

	Investment properties freehold £'000	Investment properties leasehold £'000	Total investment properties £'000	Investment properties being re-developed £'000	Owner- occupied property £'000	Total properties £'000
At 1 April 2007	6,879,028	67,325	6,946,353	91,208	123,812	7,161,373
Less: deferred income from lease premiums received	(667,575)	–	(667,575)	–	–	(667,575)
Less: head lease liabilities	–	(575)	(575)	–	–	(575)
At valuation 1 April 2007	6,211,453	66,750	6,278,203	91,208	123,812	6,493,223
Additions	559,799	–	559,799	–	–	559,799
New works and improvements	69,350	–	69,350	33,449	568	103,367
Transfers	97,961	–	97,961	(97,961)	–	–
Disposals	(807,652)	–	(807,652)	–	–	(807,652)
Revaluation	212,636	21,360	233,996	1,084	(11,458)	223,622
At valuation 31 March 2008	6,343,547	88,110	6,431,657	27,780	112,922	6,572,359
Deferred income from lease premiums received	672,705	–	672,705	–	–	672,705
Head lease liabilities	–	575	575	–	–	575
At 31 March 2008	7,016,252	88,685	7,104,937	27,780	112,922	7,245,639
At 1 April 2008	7,016,252	88,685	7,104,937	27,780	112,922	7,245,639
Less: deferred income from lease premiums received	(672,705)	–	(672,705)	–	–	(672,705)
Less: head lease liabilities	–	(575)	(575)	–	–	(575)
At valuation 1 April 2008	6,343,547	88,110	6,431,657	27,780	112,922	6,572,359
Additions	192,485	–	192,485	–	–	192,485
New works and improvements	87,079	1,389	88,468	25,058	757	114,283
Transfers	(69,850)	27,200	(42,650)	42,670	(20)	–
Disposals	(242,143)	–	(242,143)	–	(4)	(242,147)
Revaluation	(1,208,947)	(36,099)	(1,245,046)	(74,158)	(27,132)	(1,346,336)
At valuation 31 March 2009	5,102,171	80,600	5,182,771	21,350	86,523	5,290,644
Deferred income from lease premiums received	781,983	–	781,983	–	–	781,983
Head lease liabilities	–	575	575	–	–	575
At 31 March 2009	5,884,154	81,175	5,965,329	21,350	86,523	6,073,202

The historic cost of the properties was £1,833,696,000 (2007/08 – £1,693,484,000).

Investment properties identified as held for sale at the year-end are included within disposals.

The property portfolio was valued on 31 March 2009 by external valuers on the basis of open market value in accordance with the Appraisal and Valuation standards published by The Royal Institution of Chartered Surveyors.

16. Properties (continued)

In relation to the property valuations made by The Crown Estate's valuers, the financial markets have seen significant turbulence over the last year or so resulting in severe liquidity shortages. The turmoil in the credit markets had an immediate effect on the real estate investment market resulting in some transactions failing and/or prices being renegotiated downwards. This has caused a marked reduction in the volume of transactions with activity below the levels of recent years. The negotiation of price chips prior to the completion of transactions remains common. Generally, there is greater volatility in the evidence generated by comparable transactions and in these circumstances there is a greater degree of uncertainty than that which exists in a more active and stronger market in forming an opinion of the realisation prices of property assets.

Whereas transaction evidence underpins the valuation process, the definition of Market Value, including the commentary in Practice Statement 3.2.4, requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

In the market conditions which currently prevail, there is likely to be a greater than usual degree of uncertainty in respect of valuations.

The value of The Crown Estate's portfolio is affected by these conditions which are outside its control.

17. Plant and equipment

	Plant and machinery £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost at 1 April 2007	1,171	9,950	1,741	12,862
Additions	167	1,995	148	2,310
Disposals	(58)	(2,122)	(252)	(2,432)
Cost at 31 March 2008	1,280	9,823	1,637	12,740
Depreciation at 1 April 2007	792	5,267	1,219	7,278
Charge	158	2,695	169	3,022
Disposals	(92)	(2,120)	(207)	(2,419)
Total depreciation at 31 March 2008	858	5,842	1,181	7,881
Net book value at 31 March 2008	422	3,981	456	4,859
Net book value at 1 April 2007	379	4,683	522	5,584

	Plant and machinery £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost at 1 April 2008	1,280	9,823	1,637	12,740
Additions	212	5,754	86	6,052
Disposals	(5)	(6)	(85)	(96)
Cost at 31 March 2009	1,487	15,571	1,638	18,696
Depreciation at 1 April 2008	858	5,842	1,181	7,881
Charge	123	2,208	171	2,502
Disposals	(63)	(5)	(111)	(179)
Total depreciation at 31 March 2009	918	8,045	1,241	10,204
Net book value at 31 March 2009	569	7,526	397	8,492

Notes to the financial statements continued

18. Investment in joint ventures

In April 2007 The Crown Estate formed a joint venture partnership with Hercules Unit Trust. The partnership, known as The Gibraltar Limited Partnership, operates in the United Kingdom. The Crown Estate has a 50% interest in the partnership. Its principal activity is property investment through its investment in Fort Kinnaird Shopping Park in Edinburgh, Gallagher Retail Park in Cheltenham and the Shires Retail Park in Leamington Spa.

In June 2008 The Crown Estate formed a co-ownership agreement with Morley Fund Management for an interest in property at Crown Point Shopping Park, Leeds. The Crown Estate has a 50% interest in the property.

In December 2008 The Crown Estate formed a co-ownership agreement with CGNU Life Assurance for an interest in property at Princes Street, London. The Crown Estate has a 66.67% interest in the property.

The Crown Estate's share of assets and liabilities and revenues and expenses of the joint ventures were:

	Gibraltar LP 2008/09 £'000	Crown Point 2008/09 £'000	Princes Street 2008/09 £'000	Total 2008/09 £'000	Gibraltar LP 2007/08 £'000
Non-current assets	213,774	48,000	4,150	265,924	301,710
Current assets	24,673	1,357	115	26,145	6,534
Gross assets	238,447	49,357	4,265	292,069	308,244
Current liabilities	(5,053)	(1,214)	(70)	(6,337)	(4,948)
Long-term bank loan	(100,000)	–	–	(100,000)	(100,000)
Share of net assets	133,394	48,143	4,195	185,732	203,296
Income	12,688	2,551	104	15,343	14,535
Expenses	(6,519)	(155)	(9)	(6,683)	(6,155)
Share of profit on ordinary activities reflected in the income account	6,169	2,396	95	8,660	8,380
Share of loss on revaluation of investment reflected in the capital account	(91,574)	(23,386)	(7,825)	(122,785)	(46,540)
Total share of income reflected in the statement of income and expenditure	(85,405)	(20,990)	(7,730)	(114,125)	(38,160)

Summary of movement in the year in investment in joint ventures:

	2008/09 £'000	2007/08 £'000
At 1 April	203,296	–
Net equity additions	104,809	249,941
(Deficit) on revaluation of investment properties	(122,785)	(46,540)
Distributions receivable during the year	(8,248)	(8,485)
Share of profit for the year	8,660	8,380
At 31 March at carrying value	185,732	203,296

In respect of the Gibraltar Limited Partnership, the partnership is dependent for its working capital requirements on cash generated from operations and a £200 million credit facility. The partnership is required to comply with a number of covenants in relation to its credit facility the principal of which is that the amount of the loan drawn must not exceed 35% of the value of the partnership's properties. As at 31 March 2009 the partnership had placed £37 million of cash loaned from the limited partners in a blocked account in order to maintain compliance with this covenant.

The general partner, Gibraltar General Partner Limited, is aware that future compliance with this covenant could be affected if there are continued reductions in property values. Whilst the general partner will continue to monitor adherence to this covenant, further cash injections will be required from the limited partners, or alternative sources of funding sought, to maintain compliance in the event of continued reductions in property values.

The general partner has concluded that these circumstances give rise to material uncertainty that could cast significant doubt upon the partnership's ability to continue as a going concern and it may therefore be able to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries, and considering the uncertainties described above, the directors of the general partnership have a reasonable expectation that the partnership has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the general partner considers it appropriate to prepare the financial statements on a going concern basis.

19. Other property investments

In September 2006, The Crown Estate acquired a 4.9% share of Lend Lease Retail Partnership, an English Limited Partnership. The Partnership provides an equity interest in both Bluewater Shopping Centre, Kent and Touchwood Court Shopping Centre, Solihull.

	2008/09 £'000	2007/08 £'000
Net income received	1,523	1,719
Share of revaluation of investment	(11,193)	(3,376)
Reflected in the statement of income and expenditure	(9,670)	(1,657)
Share of net assets	27,501	38,693

20. Other investments

	2008/09 £'000	2007/08 £'000
Antiques and paintings	4,845	4,865

Antiques and paintings are valued by recognised experts every three years on a rolling basis. The last valuation took place in 2007/08. A valuation deficit of £22,000 was recognised in 2007/08.

21. Receivables due after one year

	2008/09 £'000	2007/08 £'000
Mortgages and loans	1,641	752
Other receivables	9,758	2,500
	11,399	3,252

22. Inventories

	2008/09 £'000	2007/08 £'000
Inventories for resale	135	120
Stores	95	102
Work in progress	–	2,128
	230	2,350

Work in progress comprised the costs associated with the implementation of a new financial system. On completion these costs were transferred to plant and equipment.

Notes to the financial statements continued

23. Trade and other receivables

	2008/09 £'000	2007/08 £'000
Trade receivables	10,021	9,702
Proceeds from sale of land at Bingham	–	12,750
Other receivables	12,506	39,630
Prepayments	2,186	432
Accrued income	6,922	6,825
	31,635	69,339

Trade and other receivables are shown after deducting the provision for bad and doubtful debts of £19,480,000 (£6,137,000 for 2007/08). The increase in the trade receivable impairment reflects the application of The Crown Estate's provisioning policy in respect of bad and doubtful receivables.

The Board considers that the carrying amount of the trade and other receivables approximates to their fair value.

	2008/09 £'000	2007/08 £'000
Trade and other receivables outside their payment terms not yet provided are:		
Within credit terms	–	–
Past due date but not impaired:		
0–1 month	12,383	18,574
1–2 months	1,124	867
More than 2 months	1,323	3,463
	14,830	22,904
Bad and doubtful receivables provision		
Other expenditure includes the movement on the provision for bad and doubtful receivables as follows:		
Provision at the beginning of the year	6,137	3,867
Income written off during the year	(404)	(370)
Increase in the provision for the year	13,747	2,640
Provision at the end of the year	19,480	6,137

24. Payables

	2008/09 £'000	2007/08 £'000
Amounts falling due within one year:		
Trade payables	370	4,599
Rents received in advance	50,929	49,244
Taxes and social security	7,715	12,440
Other payables	69,015	11,233
Consolidated Fund	10,000	7,000
Accruals and deferred income	19,294	10,252
Deferred income on receipt of lease premiums	7,583	8,304
Obligations under finance leases	35	35
	164,941	103,107
Amounts falling due after more than one year:		
Rents received in advance	1,250	1,750
Deferred income on receipt of lease premiums	774,400	664,401
Obligations under finance leases	540	540
	776,190	666,691

25. Reserves

	Revenue account £'000	Capital account £'000	Total reserves arising from income £'000	Revaluation reserve £'000	Pension reserve £'000	Total capital and reserves £'000
As at 1 April 2007	8,331	7,053,511	7,061,842	36,808	(3,504)	7,095,146
Surplus after Consolidated Fund payment	2,447	243,952	246,399	–	–	246,399
Unrealised deficit on revaluation of antiques	–	–	–	(22)	–	(22)
Revaluation (deficit) of owner occupied properties	–	–	–	(11,458)	–	(11,458)
Pension reserve adjustment	(711)	–	(711)	–	711	–
Actuarial (loss)/gains on retirement benefits	–	–	–	–	3,641	3,641
As at 31 March 2008	10,067	7,297,463	7,307,530	25,328	848	7,333,706
As at 1 April 2008	10,067	7,297,463	7,307,530	25,328	848	7,333,706
Deficit after consolidated fund payment	(3,543)	(1,288,842)	(1,292,385)	–	–	(1,292,385)
Revaluation (deficit) of owner occupied properties	–	–	–	(25,328)	–	(25,328)
Pension reserve adjustment	(1,210)	–	(1,210)	–	1,210	–
Actuarial (loss) on retirement benefits	–	–	–	–	(1,151)	(1,151)
As at 31 March 2009	5,314	6,008,621	6,013,935	–	907	6,014,842

Notes to the financial statements continued

26. Leasing

Operating leases with tenants

The Crown Estate leases out all of its investment properties under operating leases for average lease terms of 44 years to expiry. The future aggregate minimum rentals, excluding contingent rents receivable under non-cancellable leases are as follows:

	2008/09 £'000	2007/08 £'000
Less than one year	192,778	193,561
Between two and five years	646,393	662,278
Between six and 10 years	602,417	624,307
Between 11 and 15 years	337,262	381,472
Between 16 and 20 years	210,709	215,881
Between 21 and 25 years	176,640	176,958
After 25 years	1,770,626	1,753,239
	3,936,825	4,007,696

Contingent rents receivable were £554,027,375 at 31 March 2009 (£559,658,869 at 31 March 2008).

Obligations under finance leases

Finance lease liabilities are payable as follows:

	2008/09			2007/08		
	Minimum lease payments £'000	Future finance charges £'000	Present value of lease obligations £'000	Minimum lease payments £'000	Future finance charges £'000	Present value of lease obligations £'000
Less than one year	35	–	35	35	–	35
Between one and five years	138	(19)	119	138	(19)	119
More than five years	3,152	(2,731)	421	3,183	(2,762)	421
	3,325	(2,750)	575	3,356	(2,781)	575

27. Reconciliation of operating surplus to net cash inflow from operating activities

	2008/09 £'000	2007/08 £'000
Operating surplus – income account	223,701	172,622
Profit on disposal of fixed assets	(6)	(193)
Depreciation	2,502	3,022
Decrease in receivables	29,938	4,735
(Decrease)/increase in payables	(6,329)	54,222
(Decrease)/increase in inventories	(8)	(1,598)
Net cash inflow from operating activities	249,798	232,810

28. Analysis of change in cash and cash equivalents

	2008/09 £'000	2007/08 £'000
Balance at start of year	518,362	435,223
Net cash (outflow)/inflow	(128,276)	83,139
Balance at end of year	390,086	518,362

29. Subsidiary undertakings

On 7 April 2008 The Crown Estate acquired a 100% interest in Rhu Marina Holdings Limited and its subsidiary companies, Rhu Marina Limited and Rhu Marina Sales Limited for a total consideration of £4.2 million including associated costs. Rhu Marina Limited held an investment in a marina in Rhu, Scotland. During the year the assets and liabilities of Rhu Marina Holdings Limited and its subsidiaries were acquired by The Crown Estate.

Several Crown Estate properties are managed by management companies under the control of, or in joint venture with, The Crown Estate Commissioners.

These subsidiary and joint venture undertakings are not material by value or 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 (held 100% by The Crown Estate Commissioners unless stated):

- Fitzgeorge and Fitzjames Management Company Limited
- RM Site Management Limited
- Urbanlease Property Management Company Limited
- Bessborough Gardens Estate Management Company Limited
- Rhu Marina Holdings Limited
- Gibraltar General Partner Limited (50% interest).

30. Capital commitments

At 31 March 2009 The Crown Estate had committed to make capital expenditure of £500 million (£152 million at 31 March 2008) and had authorised additional expenditure of £63.7 million (£121 million at 31 March 2008).

31. Contingent liabilities

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

32. Related party transactions

During the year, none of the Board members, members of the key management staff or other related parties have undertaken any material transactions with The Crown Estate with the exception of Philip Everett, the Deputy Ranger at Windsor Great Park who is employed in a personal capacity through Smiths Gore where he is a salaried partner and David Fursdon, non-executive director who is a non-executive consultant of Smiths Gore. Smiths Gore are amongst The Crown Estate's managing agents and as such receive fees for their services. Neither Philip Everett nor David Fursdon had any involvement in determining either the appointment or remuneration of Smiths Gore in this capacity. During the year Smiths Gore were paid a total in fees of £1,860,542 (£1,898,862 in 2007/08), for services they provided across the whole of The Crown Estate

33. Third party deposits

At 31 March 2009 The Crown Estate held £18,675,686 (£15,286,826 at 31 March 2008) on deposit on behalf of third parties.

34. Issue of accounts

On 22 June 2009 the financial statements were approved by the audit committee on behalf of the Board prior to certification by the Comptroller and Auditor General on 29 June 2009. On this date the financial statements for the year ended 31 March 2009 are deemed to be authorised for issue. Post balance sheet events were considered up to this date.

Notes to the financial statements continued

35. Explanation of the transition to IFRS

2009 is the first year that The Crown Estate is presenting its financial statements under IFRS as modified by the requirements of The Crown Estate Act 1961 and with the directions of the Treasury.

The last financial statements presented under UK GAAP as modified by The Crown Estate Act 1961 and with the directions of the Treasury were for the year ended 31 March 2008.

As IFRS comparatives must be prepared for the year ended 31 March 2008, the date of the transition to IFRS was 1 April 2007.

Reconciliations of the 2008 statement of income and expenditure and the balance sheet from those previously reported are set out in pages 83 to 85.

The Crown Estate Act 1961 requires that income is distinguished separately from capital. Under IFRS certain capital items are required to be reported through the statement of income and expenditure. Previously all capital items were reported through the balance sheet. In order that the financial statements comply with the requirements of The Crown Estate Act 1961 it has been necessary to report the statement of income and expenditure in income, capital and total columns.

The transition to IFRS has had no impact on the cash flows of The Crown Estate.

The principal adjustments are explained below. The references refer to the columns shown in notes 35a, 35b and 35c:

- a Under UK GAAP lease incentives and rent free periods were amortised over the period to first rent review. Under IFRS such lease incentives are amortised over the period to first break or period of the lease, whichever is the shorter.
- b Under IFRS gains and losses arising on the revaluation of investment properties are included in the statement of income and expenditure. Previously gains and losses were treated as capital account items recognised in the revaluation reserve.
- c Under IFRS gains and losses on the sale of investment properties are reflected in the statement of income and expenditure in the capital account column. Previously such gains and losses were treated as capital account items reflected in the general capital reserve.
- d Under IFRS, the premium received in respect of the grant of a lease over a property is regarded as an operating lease. The resulting deferred income is recognised in the statement of income and expenditure in the capital account column on a straight line basis over the length of the lease. Under the requirements of IAS 40 investment properties are grossed up to reflect the value of this income. Previously receipts on granting a lease where the lease term was greater than 30 years were treated as capital account items, credited to the carrying value of the investment property.
- e Under IFRS the share of the revaluation of investment in joint ventures and other investments is reflected in the statement of income and expenditure. Previously such gains and losses were treated as capital account items taken to the revaluation reserve.
- f IAS 17 requires a lease to be classified as either a finance lease or an operating lease. A finance lease exists if substantially all the risks and rewards of ownership are transferred to the tenant. All other leases are operating leases. The Crown Estate has examined its leases and concluded that substantially all are operating leases. As such all property continues to be shown as a property interest in the balance sheet.

Where an investment property is itself subject to a head or groundlease, IFRS requires that the headlease is treated as though it were a finance lease. The net present value of all payments under the finance lease are capitalised into the value of the investment property and a creditor for obligations under finance leases has been recognised. No such distinction was required under UK GAAP.

- g Under IFRS 5 properties held with the intention of disposal at the balance sheet date are valued at the lower of cost and net realisable value. They are shown in the balance sheet as current property assets. Previously such property was disclosed within investment properties.
- h As stated in notes 1b and 1c The Crown Estate Act 1961 contains specific provisions for an amount equivalent to the cost of purchase of leaseholds with a lease term of 40 years or less and new works and improvements expenditure of a wasting nature to be recovered from the income account and credited to the capital account through the general capital reserve. Under IFRS this transfer is shown in statement of income and expenditure.

35. Explanation of the transition to IFRS (continued)

a. Reconciliation of the statement of income and expenditure for the year ended 31 March 2008 from UK GAAP as modified to IFRS.

	Income Account					Capital Account				Total statement of income and expenditure under IFRS £'000	
	As previously reported presented in an IFRS format £'000	Lease incentives a £'000	Gross up income and costs for service charge £'000	Total Income account under IFRS £'000	Revaluation of investment properties b £'000	Gains on disposal of investment properties c £'000	Lease premiums d £'000	Revaluation of joint ventures and other investments e £'000	Statutory provisions and Treasury agreements h £'000		Total capital account under IFRS £'000
Turnover	229,869	2,004	19,674	251,547	–	–	6,870	–	–	6,870	258,417
Costs	(59,251)	–	(19,674)	(78,925)	–	–	–	–	–	–	(78,925)
Operating surplus	170,618	2,004	–	172,622	–	–	6,870	–	–	6,870	179,492
Recovery of capital expenditure under The Crown Estate Act 1961	10,126	–	–	10,126	–	–	–	–	(10,126)	(10,126)	–
Net revaluation gains (including profits on disposals)	–	–	–	–	247,080	47,005	(6,870)	–	–	287,215	287,215
Share of profit/(loss) from joint ventures	8,380	–	–	8,380	–	–	–	(46,540)	–	(46,540)	(38,160)
Share of profit from other property investments	1,719	–	–	1,719	–	–	–	(3,376)	–	(3,376)	(1,657)
Parliamentary resource finance	2,357	–	–	2,357	–	–	–	–	–	–	2,357
Statutory transfers	(9,909)	–	–	(9,909)	–	–	–	–	9,909	9,909	–
Net operating profit before financing	183,291	2,004	–	185,295	247,080	47,005	–	(49,916)	(217)	243,952	429,247
Investment revenue	28,152	–	–	28,152	–	–	–	–	–	–	28,152
Net surplus	211,443	2,004	–	213,447	247,080	47,005	–	(49,916)	(217)	243,952	457,399
Consolidated fund payment	(211,000)	–	–	(211,000)	–	–	–	–	–	–	(211,000)
Surplus after consolidated fund payment	443	2,004	–	2,447	247,080	47,005	–	(49,916)	(217)	243,952	246,399

35. Explanation of the transition to IFRS (continued)

b. Reconciliation of the balance sheet at 31 March 2008 from UK GAAP as modified to IFRS.

	As previously reported presented in an IFRS format £'000	Opening balance sheet adjustment (note 35c) £'000	Lease incentives a £'000	Revaluation of investment properties b £'000	Lease premiums d £'000	Properties held for sale g £'000	Re-stated under IFRS £'000
Assets							
Non-current assets							
Investment properties	6,443,658	588,925	–	–	5,130	67,224	7,104,937
Investment properties under re-development	27,780	–	–	–	–	–	27,780
Owner occupied property	112,922	–	–	–	–	–	112,922
Plant and equipment	4,859	–	–	–	–	–	4,859
Investment in joint ventures	203,296	–	–	–	–	–	203,296
Other property investments	38,693	–	–	–	–	–	38,693
Other investments	4,865	–	–	–	–	–	4,865
Receivables due after one year	3,252	–	–	–	–	–	3,252
Total non-current assets	6,839,325	588,925	–	–	5,130	67,224	7,500,604
Current assets							
Non-current property assets held for sale	–	79,225	–	–	–	(67,224)	12,001
Inventories	2,350	–	–	–	–	–	2,350
Receivables	63,679	3,656	2,004	–	–	–	69,339
Cash and cash equivalents	518,362	–	–	–	–	–	518,362
Total current assets	584,391	82,881	2,004	–	–	(67,224)	602,052
Pension asset	848	–	–	–	–	–	848
Total assets	7,424,564	671,806	2,004	–	5,130	–	8,103,504
Liabilities							
Current liabilities							
Trade and other payables	(94,768)	(7,886)	–	–	(453)	–	(103,107)
Total current liabilities	(94,768)	(7,886)	–	–	(453)	–	(103,107)
Non-current liabilities	(1,750)	(660,264)	–	–	(4,677)	–	(666,691)
Total liabilities	(96,518)	(668,150)	–	–	(5,130)	–	(769,798)
Net assets	7,328,046	3,656	2,004	–	–	–	7,333,706
Capital and reserves							
Revenue reserve available for distribution to The Consolidated Fund	4,407	3,656	2,004	–	–	–	10,067
Reserves relating to the Capital account	2,544,837	4,911,692	–	(159,066)	–	–	7,297,463
Total reserves arising from Revenue	2,549,244	4,915,348	2,004	(159,066)	–	–	7,307,530
Revaluation reserve	4,777,954	(4,911,692)	–	159,066	–	–	25,328
Pensions reserve	848	–	–	–	–	–	848
Total capital and reserves	7,328,046	3,656	2,004	–	–	–	7,333,706

35. Explanation of the transition to IFRS (continued)

c. Reconciliation of the balance sheet at 31 March 2007 from UK GAAP as modified to IFRS

	As previously reported presented in an IFRS format £'000	Lease incentives a £'000	Revaluation of investment properties b £'000	Lease premiums d £'000	Head leases f £'000	Properties held for sale g £'000	Under IFRS £'000
Assets							
Non-current assets							
Investment properties	6,357,428	–	–	667,575	575	(79,225)	6,946,353
Investment properties under re-development	91,208	–	–	–	–	–	91,208
Owner occupied property	123,812	–	–	–	–	–	123,812
Plant and equipment	5,584	–	–	–	–	–	5,584
Other property investments	42,065	–	–	–	–	–	42,065
Other investments	4,941	–	–	–	–	–	4,941
Receivables due after one year	13,814	–	–	–	–	–	13,814
Total non-current assets	6,638,852	–	–	667,575	575	(79,225)	7,227,777
Current assets							
Non-current property assets held for sale	–	–	–	–	–	79,225	79,225
Inventories	752	–	–	–	–	–	752
Receivables	58,616	3,656	–	–	–	–	62,272
Cash and cash equivalents	435,223	–	–	–	–	–	435,223
Total current assets	494,591	3,656	–	–	–	79,225	577,472
Total assets	7,133,443	3,656	–	667,575	575	–	7,805,249
Liabilities							
Current liabilities							
Trade and other payables	(38,449)	–	–	(7,851)	(35)	–	(46,335)
Pension fund provision	(3,504)	–	–	–	–	–	(3,504)
Total current liabilities	(41,953)	–	–	(7,851)	(35)	–	(49,839)
Non-current liabilities	–	–	–	(659,724)	(540)	–	(660,264)
Total liabilities	(41,953)	–	–	(667,575)	(575)	–	(710,103)
Net assets	7,091,490	3,656	–	–	–	–	7,095,146
Capital and reserves							
Revenue reserve available for distribution to The Consolidated Fund	4,675	3,656	–	–	–	–	8,331
Reserves relating to the Capital account	2,141,819	–	4,911,692	–	–	–	7,053,511
Total reserves arising from Revenue	2,146,494	3,656	4,911,692	–	–	–	7,061,842
Revaluation reserve	4,948,500	–	(4,911,692)	–	–	–	36,808
Pensions reserve	(3,504)	–	–	–	–	–	(3,504)
Total capital and reserves	7,091,490	3,656	–	–	–	–	7,095,146

Ten-year record

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

Income account	1999/00 £'000	2000/01 £'000	2001/02 £'000	2002/03* £'000	2003/04 £'000	2004/05 £'000	2005/06 £'000	2006/07* £'000	2007/08 Restated £'000	2008/09 £'000
Revenue	187,202	204,885	223,537	230,039	237,779	245,444	252,341	262,160	251,547	304,157
Direct operating costs	(25,130)	(26,661)	(30,176)	(27,320)	(30,201)	(31,953)	(31,613)	(38,718)	(59,873)	(60,930)
Gross surplus	162,072	178,224	193,361	202,719	207,578	213,491	220,728	223,442	191,674	243,227
Administrative expenses	(10,226)	(10,701)	(10,743)	(11,347)	(11,031)	(11,746)	(12,321)	(13,271)	(15,493)	(17,030)
Indirect operating expenses	–	–	–	–	(887)	(2,007)	(1,030)	(766)	(730)	–
Net revenue surplus	132,885	147,740	163,339	171,053	176,930	184,811	190,817	200,072	213,447	226,547
Consolidated										
Fund payment	132,900	147,800	163,500	170,800	173,000	185,700	188,000	200,000	211,000	230,000
Investment and owner occupied properties	3,433,612	3,870,938	4,032,640	4,067,438	4,408,872	4,812,024	5,685,395	6,572,448	7,245,639	6,073,202
Property held for sale	–	–	–	–	–	–	–	–	12,001	221,944
Investment in joint ventures	–	–	–	–	–	–	–	–	203,296	185,732
Other property investments	–	–	–	–	–	–	–	42,065	38,693	27,501
Other plant, property and equipment	2,741	2,395	2,133	2,132	2,236	3,209	4,577	5,584	4,859	8,492
Investments	3,856	3,960	3,994	3,976	4,059	5,042	4,995	4,941	4,865	4,845
Debtors: due >1yr	–	–	–	–	42	64	64	13,814	3,252	11,399
Current assets	205,450	146,581	167,017	185,371	214,134	306,731	287,198	494,591	602,052	643,895
Pension asset	–	–	–	–	–	–	–	–	848	907
Current liabilities	(19,137)	(20,190)	(25,956)	(39,817)	(36,120)	(36,645)	(45,631)	(41,953)	(103,107)	(164,941)
Creditors >1yr	–	–	–	–	–	–	–	–	(666,691)	(776,190)
Capital and reserves	3,626,522	4,003,684	4,179,828	4,219,100	4,593,223	5,090,425	5,936,598	7,091,490	7,333,706	6,014,842

*The above note to the financial statements has been re-stated to take account of the adoption of FRS 17.

The 2007/08 figures are restated to reflect the change to IFRS. The figures shown in prior year columns are as previously reported under UK GAAP.