FINANCIAL REVIEW

Charting our recovery

“I joined the Group at the end of a challenging year that has tested the resilience of our business. As we chart our recovery from the pandemic there is both a lot to do and a significant opportunity to create social, environmental and financial value.”

Robert Allen
Interim Chief Financial Officer

Key highlights

Net revenue profit
£269.3m
(2019/20: £345.0m)

Net assets
£15.2bn
(2019/20: £14.1bn)

Property value
£14.4bn
(2019/20: £13.4bn)

As I look back on our performance in the year it was dominated by two events: the challenge of responding to the stress in our customers' businesses as a direct result of the pandemic, and the successful selection of nearly 8GW of offshore wind projects for progression to environmental assessment as part of Offshore Wind Leasing Round 4.

COVID-19
The three national lockdowns and varying local restrictions as a result of the pandemic have created significant challenges for many of our customers, which, as you would expect, has had a bearing on our results. Net revenue profit of £269.3 million is £75.7 million lower than last year, and annualised net revenue profit over a three-year period has declined by 6.5% against a pre-pandemic target of 4% growth. This represents an underperformance of 10.5 percentage points. The decline has primarily been driven by lower rental collections, as a result of weak occupational markets and the case-by-case support agreed as some of our customers have not been able to afford to pay their full rent and service charges. Consequently, we have granted £20.5 million of concessions and recorded a further £34.2 million of bad debts costs in the year.

We are acutely aware that government schemes have been supporting many of our customers' businesses, such as the Coronavirus job retention scheme (furlough), the rates holiday and rent moratorium. In spite of this, and our necessary support, many businesses have significantly more debt on their balance sheets than at the start of the pandemic, and we expect to see further business failures and CVAs when this support is lifted. As a result, there remains uncertainty over the level of our bad debt provisions at 31 March 2021 and around the trading conditions for the current financial year both of which will continue to be areas of focus.

Another impact of the pandemic has been to accelerate existing structural trends, especially in the retail market. Weakness in the occupational markets and a move to turnover-based rent has led to decreasing ERVs with negative investor sentiment towards retail resulting in increased valuation yields, consistent with the market. These trends are the primary driver behind the combined revaluation loss in our London and Regional portfolios of £1.1 billion.

Offshore Wind Leasing Round 4
In contrast to the Group's retail assets, the Marine portfolio has increased in value by £2.1 billion, primarily as a result of including, for the first time, a value for the Offshore Wind Leasing Round 4 (Round 4) following the successful tender that completed in February 2021 with four customers being awarded preferred bidder status over six sites. The success of Round 4, independently valued at £1.9 billion, has directly led to a 15.1 percentage points increase in our total return performance. As we move into the option period the net revenue profit from Round 4 will begin to be recognised and paid annually to the Treasury for the benefit of the nation's finances.

Currently at the preferred bidder phase, we are holding £879 million of Marine customers' deposits on the balance sheet at 31 March 2021, which represents one year's option fee income from Round 4. The quantum of annual option fees for Round 4 will introduce significant variability into our revenue in future years due to the timing of when customers enter their option agreements (in one to two years' time) and then again as they enter their leases, or as a result of attrition. This uncertainty is a key driver behind the relatively modest £1.9 billion valuation and will also result in future volatility in asset values and our total return performance. The key phases of Round 4 and potential time lines are set out below.

Given the changing shape of our business as a result of Round 4 and our emerging strategy, we will complete a review of the current MSCI benchmarking approach during the current financial year to ensure it remains an appropriate performance benchmark.

Payments to Treasury
At the date of preparing this report we have settled the outstanding 2019/20 net revenue profit liability to the Treasury, which we had agreed to pay in instalments, given we cannot draw on our capital account to cover operating expenses. We have agreed a mechanism for staged payments of our net revenue profit for the next three years, which along with the additional income from Round 4, supports our status as a viable business. All of the 2020/21 net revenue profit remains as a liability on our balance sheet to be settled as revenue cash balances allow.

Revenue account

	2020/21 £m	2019/20 £m	Change £m	Change %
Revenue (excluding service charge income)	486.9	519.4	(32.5)	(6.3)
Direct costs (including net service charge expense)	(130.2)	(99.0)	(31.2)	31.5
Gross profit	356.7	420.4	(63.7)	(15.2)
Gross profit margin	73.3%	80.9%		(7.6)
Administrative expenses	(38.5)	(34.6)	(3.9)	11.3
Operating profit	318.2	385.8	(67.6)	(17.5)
Net investment revenue and other income	(3.8)	2.6	(6.4)	(246.2)
Treasury agreements and statutory transfers	(45.1)	(43.4)	(1.7)	3.9
Net revenue account profit	269.3	345.0	(75.7)	(21.9)

Revenue has declined year-on-year as a result of customer concessions, administrations, CVAs, increased voids, and lower rents, reflecting the impact of the pandemic and challenging occupational markets. This has been partially offset by increases in revenue from offshore wind farms, one-off income from customers seeking to exit leases early and increased mineral extraction.

We offered a total of £53.7 million of targeted financial support across our London and Regional portfolios to customers for whom our help could make the greatest difference. This support included revised payment frequencies, rent deferrals and a substantial package of rent-free periods. At 81%, cash collections are significantly lower than pre-pandemic levels. As we established last year, we assess for impairment all invoiced amounts due before 31 March regardless of the service period. Our bad debt expense has increased, reflecting the expected credit loss on the resulting larger arrears balance on top of the cost of writing off receivables for the 47 customers who have entered a CVA or administration during the year.

We continue to work with customers with balances in arrears to reach a fair and balanced agreement to settle outstanding amounts. We have recorded an additional bad debt expense of £34.2 million, which is marginally offset by lower direct costs from reduced marketing activity and site closures during the year as a result of the pandemic. The combination of lower revenue and higher costs has led to a £63.7 million or 15.2% reduction in gross profit.

Administrative expenses have increased primarily as a result of severance costs arising from a restructure across much of our business – in order to improve our ways of working and bring in new capabilities to support our emerging strategy.

Lower interest rates on cash deposits, reduced dividend rates from property investments and the in-built lag into the mechanism to retain income for capital have all had a detrimental impact on this year's net revenue profit.

In total, our net revenue profit has fallen by 21.9% compared to last year and on a three-year rolling basis this amounted to a decline of 6.5%, 10.5 percentage points off our 4% growth target.

Round 4 – key phases

Phase	Preferred bidder		Option period		Construction phase		Operational wind farms
Time period	**1 to 2 years**	Option signed*	**up to 10 years**	Lease signed	**Typically 3 years**	First power	**25 to 60 years**
Annual impact	Nil revenue £nil revenue (£879m non-refundable deposits received)		£879m Up to £879m revenue per annum		£25m Pre-generation rental income based on projected output, expected to be up to £25m per annum		£40m Variable revenue based on output, expected to be up to £40m per annum Up to 8GW of power and 12.5m tonnes of CO_2 emissions avoided**

Revenue estimates are subject to indexation
*The option agreement is predicated on HRA approval **Equivalent to 19% of the nation's annual household emissions

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The bridge chart on the right sets out the principal components of the change in gross profit.

Customer concessions of £20.5 million and lost revenue from the closure of visitor attractions at Windsor Great Park and allowing NHS staff to use some of our car parks free of charge led to a reduction in revenue of £23.5 million across our business. In addition to the lost revenue, we have also recorded additional bad debt costs of £34.2 million.

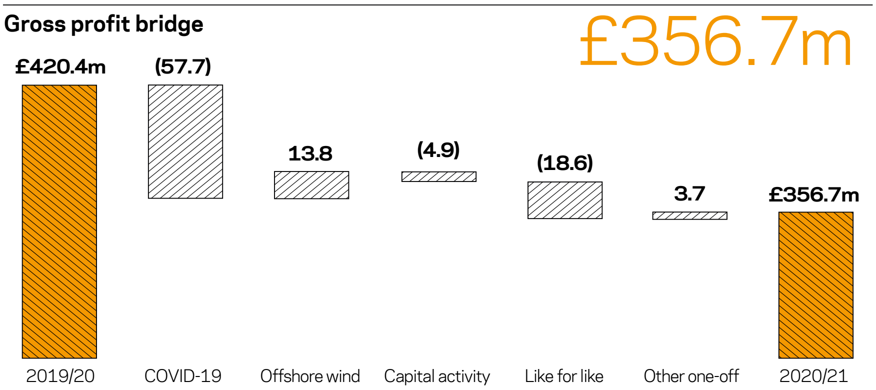
Offshore wind revenue grew by £13.8 million (25.1%) reflecting an increase in operational capacity during the year; the effect of a full year's income from wind farms that became operational last year; the impact of increased pricing; and slightly higher than average wind speeds, particularly last autumn.

After a quiet year for capital transactions net income decreased by £7.0 million as a result of lost income from properties sold in the year to 31 March 2020. This was only partially offset by the full year's income being recognised from acquisitions and developments completed in the year to 31 March 2020.

Our like-for-like income decreased by £18.6 million reflecting the challenging operational markets, and as new leasing activity has not kept pace with the rate of lease expiries, partially offset by increased minerals extraction revenue.

One-off items, which net to a gain of £3.7 million, arose principally from customer receipts to exit leases early, offset by the absence of the one-off items from last year and an accounting adjustment.

Gross profit bridge



Balance sheet

	2020/21 £bn	2019/20 £bn	Change £bn	%
Total property at valuation	14.4	13.4	1.0	7.5%
Cash	2.2	1.1	1.1	100.0%
Other net liabilities	(1.4)	(0.4)	(1.0)	250.0%
Net assets	15.2	14.1	1.1	7.8%

Net assets have increased by 7.8% to £15.2 billion, driven mainly by a net capital gain on our investment properties of £1.0 billion, which is analysed on page 33.

The principal components of our balance sheet are investment properties and cash. Cash and other net liabilities have both increased as a result of the receipt of £879 million of customer deposits for Round 4 along with associated VAT. In addition to the customer deposits, other net liabilities also comprise the net revenue profit to the extent it has not been paid to the Treasury.

Investment properties

Properties at valuation	2020/21 £m	2019/20 £m
Investment properties	13,562.0	12,390.3
Investment properties in joint ventures	657.6	781.5
Owner occupied properties	134.2	131.8
Other property investments	54.7	68.0
Total property at valuation	**14,408.5**	13,371.6

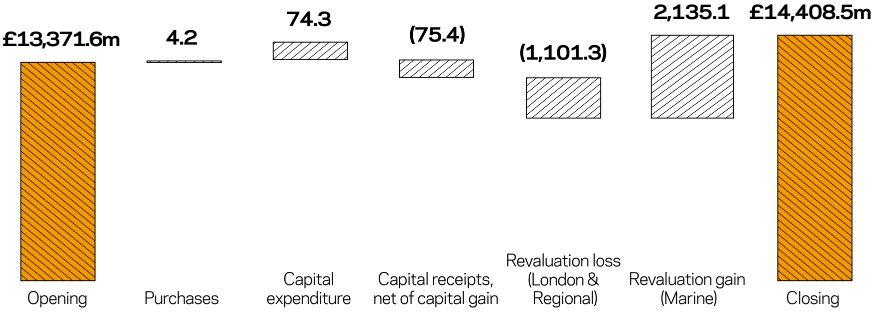
The table above shows the fair value of all properties as shown in the balance sheet, following an open market valuation of the entire portfolio as at 31 March 2021. Following a competitive tender, CBRE was appointed as valuer to our London and Regional portfolios and Cushman and Wakefield was appointed as valuer to our offshore wind portfolio, both of which were new appointments during the year.

Following a resumption of activity in the capital markets the material uncertainty clauses that were a feature of the valuations at 31 March 2020 have been lifted. An outline of the principal valuation methodologies and assumptions is given in note 18 to the financial statements.

The total value of properties increased 7.5% to £14.4 billion. Like-for-like capital values have increased by £1.0 billion, as analysed by portfolio on page 33.

Investment property valuation bridge

£14.4bn



Valuation movement by portfolio

	Value		Revaluation surplus/(deficit)	
	2020/21 £bn	2019/20 £bn	£bn	%
London	7.7	8.4	(0.8)	(9.5)
Regional	2.3	2.7	(0.3)	(11.1)
Marine	4.1	2.0	2.1	105.0
Windsor Estate	0.3	0.3	-	-
Total investment property	14.4	13.4	1.0	7.5
Gain on disposal			0.1	
Capital gain			1.1	8.2

The investment property valuation bridge above illustrates the changes in capital value.

Our decision to pause the development pipeline as a result of the pandemic and in anticipation of the strategic review of our business, has led to a significant slow-down in the rate of investment in our assets. We spent just £78.5 million in the year including the development of the food court and western extension at Fosse Park; Morley House in London achieved practical completion; and we continued to invest in key capital generative schemes such as Round 4 and proposed developments at East Hemel and Rushden Lakes.

Property sales (including long-lease extensions), capital receipts from offshore wind projects and sales of rural land together provided £148.5 million of capital for future investment in the business. The majority of property sales took place at prices above book value, generating a capital gain of £73.1 million.

The value of our total portfolio has increased by 7.5% from £13.4 billion to £14.4 billion. Our one-year total return is 11.9%, outperforming our annual MSCI bespoke total return of -2.9%. On a three-year rolling basis, it is 6.0% against our annual MSCI bespoke benchmark of 0.3%.

Excluding the impact of Round 4, on a three-year rolling basis, our performance is 0.7 percentage points ahead of the bespoke benchmark.

The value of our Marine portfolio increased 105.0% to £4.1 billion. This growth is primarily within offshore wind, specifically the Round 4 valuation. It is our policy to ascribe a value to a wind farm once preferred bidder status is achieved, which in the case of Round 4, was the auction that completed in February 2021. Despite this major milestone, there remains significant risk to future lease revenue, as each asset needs to pass a Habitat Regulations Assessment; option fee revenue could vary as expected final capacities are adjusted; there is variability over the timing of customers entering into leases which affects the revenue profile; and, there is likely to be some attrition through the process. The level of uncertainty in future cash flows is reflected in the relatively modest capital value ascribed to Round 4 when compared to the expected option fee revenue. We would expect the financial value of Round 4 to continue to grow in the short term as this uncertainty recedes.

The London portfolio decreased in value to £7.7 billion as the softening in retail valuations seen in our regional assets last year caught up with our prime West End locations. The combination of lower estimated rental values and weaker investor sentiment towards the retail sector is the primary cause of the £0.8 billion devaluation in the London portfolio. Our office rental values have remained stable with a continued shortage of prime stock and the defensive nature of our long lease portfolio proved resilient through the challenging market conditions. Our void rate has risen to 8.2%, up from 4.7% as at March 2020, due to increased levels of CVAs, administrations and lower demand, especially for retail space.

Our Regional portfolio decreased in value to £2.3 billion, also reflecting reduced short-term revenue expectations combined with increasing yields as COVID-19 has accelerated structural trends within the retail markets. Our void rate at 5.7% compares with a rate of 3.5% at March 2020.

Presentation of financial information

Our portfolio includes investments managed directly by The Crown Estate, including assets where strategic partners share an interest through a lease arrangement; those which are managed through separate joint venture entities; and those where we hold a minority interest or are managed by third parties on our behalf. This report has been presented on a proportionally consolidated basis. This reflects The Crown Estate's proportionate interest of the underlying assets and liabilities, the basis on which we view the business, as it reflects our underlying economic interest better than the legal form of the investment. The proportionally consolidated results are considered 'alternative performance measures', as they are not defined under IFRS. A reconciliation between the reported results and these alternative performance measures can be found on pages 122-123.

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Income statements
Our consolidated statement of comprehensive income is presented in two constituent parts: the revenue account and the capital account.

The revenue we generate from managing the portfolio of assets net of associated costs and specified transfers to the capital account (statutory transfers and by Treasury agreement) constitutes our revenue account. All of the net profit generated in our revenue account ('net revenue profit') is paid to the Treasury for the benefit of the nation's finances.

Our capital account primarily comprises net revaluation movements, gains or losses on the disposal of assets and recoveries from the revenue income statement. The main volatility in the capital income statement arises from net revaluation movements and gains on the disposal of investments, which are explained in note 11 on page 105. A more detailed explanation of the revenue and capital accounts can be found in note 1.

The Group's taxation position
As all our net revenue profit is due to be paid to the Treasury, The Crown Estate is not subject to corporation tax or capital gains tax. The Crown Estate is subject to VAT and SDLT and we aim to be transparent in our dealings with HMRC. The Crown Estate does not enter into any form of tax mitigation which could credibly be seen to be unethical.

Cash flow

	2020/21 £m	2019/20 £m
Net cash inflow from operating activities	1,339.3	375.3
Net cash inflow/(outflow) from investing activities	52.0	(136.3)
Payment to Consolidated Fund	(247.0)	(13.5)
Other items	(7.2)	6.4
Net cash inflow	1,137.1	231.9
Opening cash	1,058.6	826.7
Closing cash	2,195.7	1,058.6

Our cash balance increased from £1,058.6 million to £2,195.7 million in the year, primarily as a result of Round 4 customer deposits received, including the associated VAT, which is reflected within net cash flow from operating activities above. The net investment in our portfolios described on page 32 contributed to an overall net cash inflow from investing activities of £52.0 million.

The Crown Estate is prohibited from borrowing and founded on trust principles, which in practice requires capital, revenue and third party cash deposits are accounted for separately. In order to ensure resilience of revenue cash reserves, and with the agreement from the Treasury, we implemented a structured process for the deferred payment of our net revenue profits for a period of four years, which is available to us from 31 March 2020. In the year to 31 March 2021, £247.0 million of the 2019/20 net revenue profit was settled with the remaining £98.0 million settled in April 2021. The payment of the entire 2020/21 net revenue profit of £269.3 million is outstanding.

Strategic partners
We manage £2.0 billion (2019/20: £2.4 billion) of funds on behalf of our strategic joint venture and joint operating partners. The decrease reflects revaluation movements in the underlying assets as described above. Our partners have invested an additional £16.7 million across our portfolio primarily in the developments at Fosse Park and Morley House as well as early stage investment in future schemes such as the second phase of St James's Market.

The Crown Estate Pension Scheme
The pension arrangements are described in detail in the Remuneration Committee report on pages 75-80 and note 8 to the financial statements. The Crown Estate Pension scheme (CEPS) comprises three sections, of which two (the Opal and Quartz Core sections) are accounted for as defined benefit schemes. Certain of our staff also contribute to the Principal Civil Service Pension Scheme, a multi-employer scheme. Participation rates across all our pension schemes are high with 482 of our 511 people (including seasonal members of our team at Windsor) actively contributing to one of our pension schemes at 31 March 2021.

The Opal and Quartz Core sections of the CEPS were subject to their triennial valuation at 31 March 2020. Given the turbulence in the markets at the valuation date, the scheme's trustees have also considered performance since the valuation in agreeing the future contribution rates. From 1 April 2021 the contribution rate will fall from 45% to 41.5% for the Opal and from 19.5% to 17.1% for the Quartz core sections of the scheme, reflecting the well-funded nature of the scheme and the increase in the Normal Retirement Age of the Quartz section of the CEPS.

2021/22 Restatement
Following a strategic review of our business, the Rural portfolio moved from the Regional portfolio to the Windsor portfolio from 1 April 2021. The financial statements for the year to 31 March 2022 will be restated to reflect the new Windsor & Rural Strategic Business Unit, alongside the existing London, Marine and Regional Strategic Business Units.

Going concern and viability

The Board's assessments of going concern and viability were carried out in the context of the Crown Estate Act 1961 (the 'Act'), which both constitutes The Crown Estate and places certain restrictions on us as outlined on page 56. The Board has assumed the Act will continue in place indefinitely.

The structured payment process for our net revenue profit, as described on page 34, is available to us for another three years. The Board expects that a longer-term arrangement will be agreed during that period.

The Board's process for assessment for both going concern and viability included consideration of: our principal risks (which are detailed on pages 46-52); our risk appetite; our strategy; the strength of our balance sheet; the breadth of our customer base; the range of sectors in which we operate; and our financial forecasts.

The going concern assessment was completed for a period of 18 months from 31 March 2021, in which we assume the economy will begin to recover and that some of the Round 4 customer deposits will convert to revenue towards the end of the period.

A five-year period was considered when assessing our viability after considering the corporate strategy timeframe, development life-cycles and our approach to capital forecasting. The viability statement assumes ongoing downward pressure on rents; lower occupancy levels; contracted and planned spend on major developments; as well as assumptions arising from our Group strategy.

Stress testing was performed by flexing a number of assumptions in the revenue and capital requirement forecasts through a range of severe but plausible scenarios. Under all realistic scenarios The Crown Estate is able to continue to satisfy all revenue and capital account obligations over both the going concern and viability periods.

The Board confirms it has a reasonable expectation that The Crown Estate has adequate resources to continue in operational existence for at least 12 months from the date of signing these financial statements. In accordance with the 2018 UK Corporate Governance Code, the Board confirms that it has a reasonable expectation that The Crown Estate will continue in operation and to meet its liabilities as they fall due, over the five years to 31 March 2026.

Supplier payments

We aim to pay our suppliers within 30 days of the invoice date unless our contractual terms specify a shorter period. We do not seek to extend payment terms with our suppliers. Over the past financial year, we paid 73% of invoices within the target period (2019/20: 71%). This includes disputed invoices, amounts recoverable from third parties and invoices that were received late.

On average, suppliers are paid within 37 days (2019/20: 38 days) of invoice date. 12% (2019/20: 14%) of invoices were paid between 31 and 60 days and 15% (2019/20: 15%) of invoices were paid after more than 61 days. During the year there has been a focus on paying suppliers more promptly as we have sought to support our supply chain through the pandemic.

Average payment days have improved over the year, although work is ongoing to improve the speed with which we settle utility invoices, which caused six days of underperformance against our target. We do not offer our suppliers e-invoicing or supply chain finance. We do not make deductions from supplier invoices. We observe the principles of the Better Payment Practice Code.

As our supply chain widens and becomes more complex there is a risk that we do not adequately manage our suppliers, which increases the risk of their non-compliance with laws and regulations. To mitigate these risks we are guided by our Procurement. Framework which sets out the principles of our approach, ensuring value for money, effective supply chain management and working in partnership to maintain all relevant legal, environmental, ethical and health and safety standards. As we seek to better leverage our supply chain, we intend to conduct regular reviews with our suppliers to create a competitive advantage for our business and better manage costs.

Charitable donations

Under the terms of the Crown Estate Act 1961, we are restricted in our ability to make charitable donations. As permitted by section 4(2) of the Act, we made donations during the year of £10,000 (2019/20: £10,000).